

# DAIMLERBENZ



# Highlights

	1989	1988	Change in %
<b>Daimler-Benz Group</b>			
<b>Sales</b> (in millions of DM)	<b>76,392</b>	<b>73,495</b>	<b>+ 4</b>
EC market	46,474	43,915	+ 6
Federal Rep. of Germany	29,562	29,094	+ 2
EC market without Germany	16,912	14,821	+ 14
Other markets	29,918	29,580	+ 1
<b>Employees</b> (at year-end)	<b>368,226<sup>1)</sup></b>	<b>338,749</b>	<b>+ 9</b>
Domestic	298,199	268,277	+ 11
Foreign	70,027	70,472	- 1
– Figures in millions of DM –			
<b>Personnel Expenses</b>	<b>23,199</b>	<b>22,371</b>	<b>+ 4</b>
<b>Depreciation Allowances</b>	<b>3,218</b>	<b>3,086</b>	<b>+ 4</b>
<b>Cash Flow</b>	<b>5,991</b>	<b>6,130</b>	<b>- 2</b>
<b>Investments</b>	<b>7,620<sup>1)</sup></b>	<b>7,007</b>	<b>+ 9</b>
<b>Research and Technology</b>	<b>5,494</b>	<b>4,744</b>	<b>+ 16</b>
<b>Net Income</b>	<b>6,809<sup>2)</sup></b>	<b>1,702</b>	
<b>Daimler-Benz AG</b>			
<b>Capital Stock</b>	<b>2,330</b>	<b>2,118</b>	
<b>Net Income</b>	<b>1,120<sup>3)</sup></b>	<b>1,382</b>	
<b>Total Dividend Amount</b>	<b>555</b>	<b>504</b>	
<b>Dividend per DM 50 share</b> (in DM)	<b>12</b>	<b>12</b>	

1) After inclusion of Messerschmitt-Bölkow-Blohm GmbH at year-end.

2) Not comparable with figures of 1988 because of non-recurrent income and expenses.

3) First time for the managing holding company.

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# Supervisory Board

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

HILMAR KOPPER  
Frankfurt am Main  
Member of the Board of Management,  
Deutsche Bank AG  
Chairman (since March 7, 1990)

KARL FEUERSTEIN\*)  
Mannheim  
Chairman of the Corporation Labor  
Council, Daimler-Benz AG  
Chairman of the Joint Labor Council,  
Mercedes-Benz AG  
Deputy Chairman (since April 25, 1990)

Retired from the Supervisory Board:

DR. RER. POL. ALFRED HERRHAUSEN  
Frankfurt am Main  
Member of the Board of Management,  
Deutsche Bank AG  
(died November 30, 1989)  
Chairman

HERBERT LUCY\*)  
Mannheim  
Chairman of the Labor Council,  
Daimler-Benz AG  
(retired March 7, 1990)  
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\*)  
Bremen  
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. POLL. 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

PROF. DR. JUR. JOHANNES SEMLER  
Kronberg/Taunus  
Member of the Board of Management,  
Mercedes-Automobil-Holding AG

FRANZ STEINKUHLER\*)  
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  
Grafelfing 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

\*) Elected by the employees.

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## Board of Management

EDZARD REUTER  
Stuttgart

Chairman

PROF. DR.-ING. E.h. DR. h.c. WERNER NIEFER  
Stuttgart  
Mercedes-Benz

Deputy Chairman

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

JÜRGEN E. SCHREMPF  
Munich  
Deutsche Aerospace

HELMUT WERNER  
Stuttgart  
Mercedes-Benz

### Retired from the Board of Management

DR.-ING. DR.-ING. E.h. HANS DINGER  
Friedrichshafen  
MTU  
(retired June 28, 1989)

JÜRGEN HUBBERT  
Stuttgart  
Mercedes-Benz Car Division  
(retired June 30, 1989)

DR.-ING. E.h. JOHANN SCHÄFFLER  
Munich  
Dornier  
(retired May 19, 1989)

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## Directors

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DR. RER. NAT. DR. RER. NAT. HEIKE von BENDA  
Research and Development Center Ulm

**DR. RER. NAT. VOLKER LEHMANN**  
Research Institutes AEG/Aerospace

**KONRAD STRAUB**  
Group Accounting Control

MARTIN BERGER  
Annual Accounts and Disclosure

MANFRED REMMEL\*)  
Consolidated Planning and Controlling

DR. OEC. PUBL. PAUL WICK\*)  
Finances and Taxes

**JÜRGEN GEMBUS**  
Personnel

KARL SCHIRNER\*)  
Projects for Securities of Affiliates

DR. JUR. SOLMS WITTIG\*)  
Staff Lawyer

MATTHIAS KLEINERT\*)  
Public Relations and Economic Policy

JÖRG SEIZER  
Subsidiaries and Affiliated Companies

GERD WORIESCHECK (provisionally)  
Personnel Development for  
Senior Executives

\*) With general power of procurement

## Daimler-Benz Group Representatives

PETER-HANS KEILBACH  
Daimlerstr. 123  
D-1000 Berlin 48

DR. JUR. HANNS R. GLATZ  
68, Avenue du Peage  
B-1200 Brussels

PETER-EMIL RUPP  
1155 Connecticut Avenue  
Washington D.C. 20036

DR. RER. POL. JÜRGEN MORLOK  
Friedrich-Ebert Allee 26  
D-5300 Bonn 1

KLAUS BEHRENDT  
11 Duddell Street, Ruttonjee House  
Hong Kong Central

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## To the Stockholders and Friends of our Company



Dear Madam,  
Dear Sir,

This annual report marks the end of the 1980s for us, and outlines the principles for our work in the last decade of this century.

For Daimler-Benz, the year came to a close with the acquisition of our holding in Messerschmitt-Bölkow-Blohm GmbH. This event represented completion of a phase of extensive reorientation within our corporate strategy. The 1980s, the time when we achieved our greatest successes in the more than one hundred-year history of automobile production, provided the necessary economic conditions. On this basis we were able to ensure the adaption of your company to conditions which, in some cases, had changed fundamentally, without relinquishing our valued tradition.

From now on we will seek our opportunities in a new formation within a world which is in a state of motion in a variety of ways. Altered markets, basic technologies ready for application on a wide basis combined with a dynamic change in values on the part of man provide our integrated technology group with tasks which are both demanding and exciting in equal measure.

Not all procedures can, of course, be divided into separate phases. The first stages in broadening the group already represented a start on adjusting to the new requirements. Since then, we have made good progress. Nevertheless, we still need time to accomplish all the resulting work.

In such a period of radical change, the key emphasis obviously cannot be whether everything has regained equilibrium. Anyone setting such standards has failed to comprehend that such a penetrating change is not gained with harmonious stability. Besides the necessary economic resources the decisive factor is initially whether a company has the required management capacity at its disposal. The reactions of our employees again and again confirm that we have taken on a lot, but not too much.

The division of the group into an executive holding company and first of all three, and later on four autonomous corporate units has proved to be a sensible step. The initially informal creation of "debis", Daimler-Benz InterServices AG, on January 1, 1990,

which will officially commence operations on July 1, is another important example. Your company is divided into homogeneous units for current, operational business, and at the same time has the structures of general collaboration at its disposal, which finally will give rise to new products.

The new structural composition of DASA will be an equally useful organizational step. The responsibility of divisions for the areas concerning propulsion units, aircraft, space, defense systems and other fields creates homogeneous profit centers, whose orientation mirrors our confidence in the future market chances of the activities combined in them.

An important requirement on the way to new products lies in comprehending the output potential of the company, identifying technology development paths and analyzing change on the markets. From this, a business field planning strategy for existing and future activities can be derived. The model of the integrated technology group will thus increasingly contain concrete substance. It is already evident today that we are able to penetrate several new fields of activity which are economically and technically highly attractive.

New challenges thus present themselves for our employees. By means of an advanced personnel policy, we aim to create a basis for the proven high quality of our management to be maintained at all levels. We are proud of the capabilities our young employees bring with them through their qualifications and study, and our longer-serving employees are adapting impressively.

The fact that coordination problems must still be solved, and that thereby the group's new self-image must become established does not contradict our confidence. The friends of our company too are faced by this: it is only gradually that everyone throughout the world will come to understand the difference between Daimler-Benz as a holding company and Mercedes-Benz, the corporate unit comprising the internationally leading vehicle divisions which continue to be so successful.

The same applies with respect to the need to give our company a more international base. In this area, too, we are very much involved in important developments.



Against the backdrop of standardized European accounting standards, we are planning the introduction of Daimler-Benz shares on important stock markets of the world, primarily in London and Tokyo. We remain, however, highly sceptical about the practice of quarterly reports and payment of dividends because we also want to assure that your company continues to give priority to a business policy which is geared to the long term. Preparation for the integrated single European market, which is to come into force on January 1, 1993, remains a part of the further international orientation of the group. Independently of political developments, we will carry on our preparations. The greater sales successes of our vehicles in Italy, France, Spain and the United Kingdom are an example of this, in the same way as creating a solid European basis for our domestic appliances business.

One thing that is more conspicuous in the eyes of the public is our cooperation activities with notable companies in Europe, the United States and Japan. If one takes a closer look, they are devoid of the sensational background which is sometimes assumed. An essential motive arises from the mutual interest of numerous international companies to enter discussions with each other. This is especially true of the aviation and space industry, confirming our strategic assessment

whereby the restructuring of the German industry in which we have been involved will greatly enhance the importance of the companies concerned in a worldwide context.

Business alliances, in which internationally operating, efficient companies cooperate on a global or regional scale without relinquishing in any way their independence, will further mark this development. Our talks and agreements with the American United Technologies Corporation in the area of engines for commercial aircraft and for space vehicles, or with companies in the Japanese Mitsubishi group, in fields which are of interest to both partners, are examples of this.

We are increasingly recognizing that collaboration "sans frontieres" is more and more becoming an indispensable prerequisite for one's own economic and technological success. This extends well beyond our work in the aerospace sector. The network of joint projects will therefore involve different partners which complement one another, following careful examination of each individual case. It is obvious that our internal European connections are still attributed with the same high priority. Europe is our home market, companies in the countries of the European Community are our most important partners.

The developments in Germany, which is still divided into two parts, and also Eastern Europe do not affect this stance at all; anyone trying to turn this situation into an alternative to elaborating economic integration in Western Europe is acting against their own economic interests and endangering the political basis of stability. Daimler-Benz will vigorously take part in industrial reconstruction in the GDR and in Eastern Europe — but only in addition to its other activities, which remain just as important. We have the necessary management capacity at our disposal, and likewise the material resources.

When rebuilding the GDR one also has to think about regulative policy problems. If acquisitions of capital stock ensue from collaboration with companies in the GDR, it may be that at the same time a reduction in the manufacturing breadth and depth typical of these collectives is necessary.

We will allow ourselves to be guided by the conviction that Germany as a whole needs a balanced assortment of company sizes. It remains to be seen whether independence of company sectors or collaboration with appropriate medium-sized companies in West Germany or abroad is appropriate. At any rate, we will have the obligation to contribute to the strengthening of market competition.

Our confidence in future developments is also apparent by the fact that we decided on Berlin as the location for the registered office of debis. In addition we are preparing the construction of a new office building on Potsdamer Platz situated in the center of the city, where among other things we intend to create jobs arising from the growth we expect in the service sector of the group.

Against the background of the welcome development between the East and West, the assumption has been voiced that the planned disarmament agreements throw our company strategy into question. Such an idea is fundamentally erroneous. We have not broadened the group's base in order to gain a greater share in defense business, but rather due to the technologies which have their roots in the aerospace industry, and are acquiring increasing significance for other industrial uses. At present it cannot be predicted whether, to what extent, or when disarmament measures could lead to repercussions in business. We are working on concepts which will enable us to reallocate development and production capacities which may one day no longer be necessary without our being confronted with completely new issues.

The structural political changes throughout the world, including the encouraging developments in South Africa, and no less the worldwide structural changes in the entrepreneurial environment, strengthen our conviction that a broadly based technology group offers the best future prospects for success. We will guide the individual companies in the group step by step into the top rank of international competition if they are not there already.

It is not of overriding significance that all members of the group move concurrently within the profit conditions which we are striving for as a whole. A technology group must rather consist of a variety of already established and of newly developing profit-making sections. Considerable investments for them are justified. Our expenditure on research and development reflects this readiness on our part.

Long-term plans in a group structure of this kind, the dynamic nature of which has, of course, not been able to become routine over so short a period of time, are subject to greater uncertainty than already exists due to changes in the surrounding political environment. Nevertheless, we believe we can count on the fact that the group's sales in the course of the next five years will increase to more than DM 100 billion. In this period, it should already be apparent that the problems which we are currently experiencing for a series of accruing reasons are to be understood as advance outlay which will lead to clearly increasing earnings.

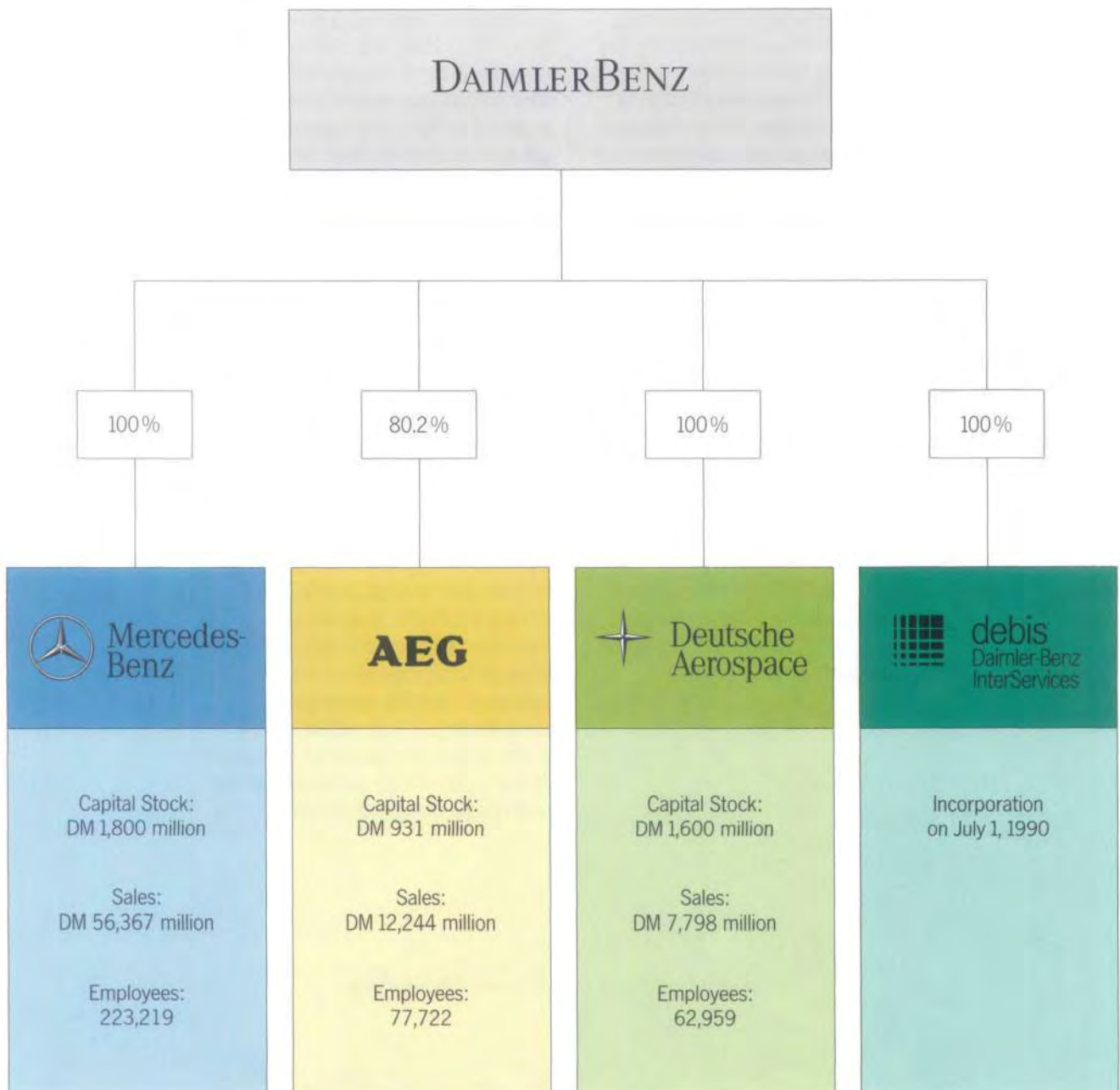
We firmly believe that it is right to come to terms with such difficulties at this point in time, during a continuing economic buoyant phase. Over the last year, all corporate units have at times benefitted from this economic climate, some of them considerably. It is a further sign that in the foreseeable future an expansion of our sales will be accompanied by gratifyingly rising net income.

*Sincerely,*

*E. G. Schmitt*

# The new Daimler-Benz Group

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# Report of the Board of Management

In 1989 business trends in the western industrialized countries continued to be characterized by an economic upturn. Stimuli resulted once again from the increasing international division of labor. Due to the high degree of capacity utilization in most economies, however, the pressure of inflation rose. Countermeasures taken by the central banks at an early stage slowed down the upward trend of the world economy and trade.

In the Federal Republic of Germany, the powerful economic upswing continued, despite the original expectations to the contrary. The gross national product went up by 4% in real terms, the highest rise for 10 years. The exceptionally good business climate was due in particular to exports and an increase in demand for capital goods. At the same time a rise in employment coupled with the large number of settlers of German origin coming from Eastern Europe and the GDR led to higher private consumption. The trade surplus went up to a new record level of DM 135 billion. The labor market proved to be as receptive as it last was in 1979, yet the average number of unemployed for the year could, unfortunately, not be reduced significantly.

## Daimler-Benz: Worldwide Sales Over DM 76 Billion

For Daimler-Benz the 1989 business year was more favorable in general than had been expected one year before. Consolidated sales rose by 4 % to DM 76.4 billion. Foreign business increased by DM 2.4 billion to DM 46.8 billion; in the other countries of the EC alone, sales rose by 14 %. Domestic sales increased by DM 0.5 billion to DM 29.6 billion.

Nearly three-quarters of consolidated sales were accounted for by the corporate unit of Mercedes-Benz, 16 % by AEG and 10 % by Deutsche Aerospace (DASA) — excluding Messerschmitt-Bölkow-Blohm.

As the executive holding company for the newly structured Daimler-Benz group, Daimler-Benz AG does not show any proceeds from sales in its financial statement.

## More Mercedes-Benz Cars Sold Abroad

Worldwide, 1989 was a good year for cars. Vehicle sales and production output both rose again. In the European Community and in Japan, new registrations increased significantly. Business in the USA, however, declined.

Sales of Mercedes-Benz cars in the Federal Republic of Germany were affected by weak demand for diesels. In total, new registrations of our cars dropped by 9 % to 247,100 units. Falling registrations of our mid-series models, due to the model improvement measures which were imminent, contrasted with an encouraging increase in sales of our S-class sedans and coupes. The Mercedes-Benz share of the domestic market amounted to 9.2 % (10.2 % in 1988).

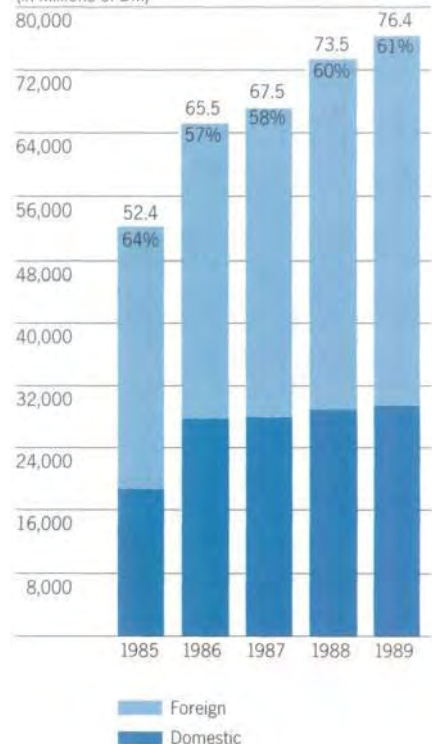
The positive trend abroad continued in 1989. A total of 301,500 cars were sold, 3 % more than in 1988. Once again Italy, the United Kingdom and France were particularly receptive. In the countries of the EC sales increased by 7 % to 125,100 vehicles.

In the USA, despite a market situation which was difficult especially for imported vehicles, Mercedes-Benz succeeded in selling 75,700 cars (83,700 in 1988). This fall in sales was compensated for by higher sales in Japan and other East Asian countries; in Japan alone, 31,500 new Mercedes-Benz cars were registered (+ 39 %).

In 1989, we reduced the production output of cars by 3 % to 542,200. While the number of gasoline-engined models manufactured went up slightly, the proportion of diesels to total car output dropped further, to 24.5 % (28.2 % in 1988). As recently as 1980, almost every second Mercedes-Benz car was a diesel.

## Consolidated Sales

(In Millions of DM)



**Note:**  
The Business Review is combined for Daimler-Benz AG and the group as a whole.

**Sales of Mercedes-Benz Commercial Vehicles Still at a High Level**

The high demand for commercial vehicles in the last few years continued in most markets in 1989. In North and South America, however, fewer commercial vehicles were sold.

Mercedes-Benz maintained its position as the world's largest manufacturer of trucks from 6 tonnes, and in some markets improved this position further. In Germany, new vehicle registrations rose by 7 % to 70,600 units, 31,900 of these being trucks over 6 tonnes. In the heavy-duty category of 16 tonnes and over, we sold 16 % more than in 1988. Our mar-

ket share for trucks over 6 tonnes amounted to 57.4 % (58.6 % in 1988). We exported 100,800 Mercedes-Benz commercial vehicles from our domestic plants, 76,200 of these (+ 10 %) going to other countries in the EC. Here, too, our heavy-duty trucks were particularly popular, especially in France, the United Kingdom and Italy. In the whole EC market we enlarged our market share for trucks over 6 tonnes to 24.0 % (23.4 % in 1988), with sales of 66,100 vehicles.

With manufacturing capacity utilized to the full, output from our domestic plants rose to 160,900 vans, trucks, buses, Unimogs and MB-tracs (154,300 in 1988). The number of production kits for assembly abroad went up by 19 % to 12,800 units.

Our commercial vehicle companies abroad produced 100,100 units, 3 % fewer than in 1988. Our subsidiaries Mercedes-Benz do Brasil and Mercedes-Benz Argentina, in particular, were confronted with a very difficult economic situation in their own countries. Output and unit sales were in some cases considerably down on the previous year's.

Mercedes-Benz Espana continued its market success with the Mercedes-Benz 100 D van, increasing output by 7 % to 24,800 units. While our group member-companies in Mexico and South Africa registered gratifying growth, market conditions caused Freightliner in North America to reduce output slightly.

Throughout the group, 261,000 commercial vehicles were manufactured in 1989, again matching the previous year's high level.

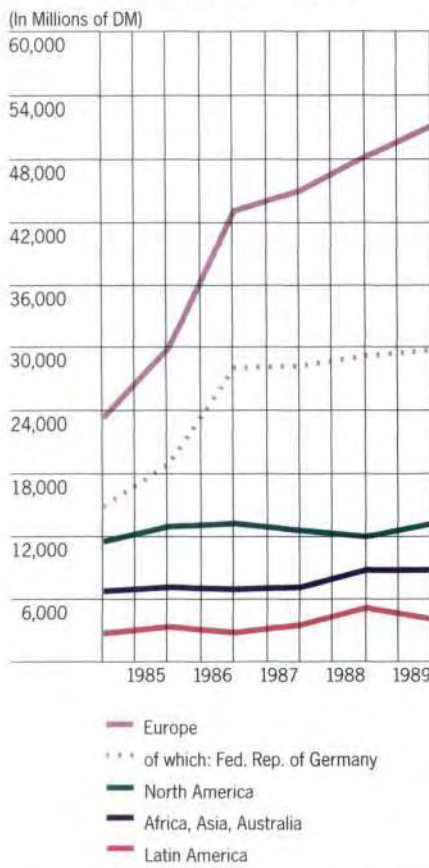
**AEG: Higher Sales and Incoming Orders**

In 1989 the corporate unit of AEG benefitted fully from the favorable trends in the German electrical industry. Again as in the industry as a whole, growth for AEG was due mainly to the lively demand from abroad.

Trends for the European AEG companies were especially encouraging, with above-average growth rates. The companies strengthened their positions regarding both domestic appliances and automation systems. In North America, AEG experienced a considerable rise in business volume in factory automation and in transportation systems. At the same time, however, the expansion of activities in these fields necessitated a high level of investment.

In Germany, the microelectronics company TELEFUNKEN electronic GmbH was favored by the good climate for automotive business. In the Field of Activity of Standard Products and Components, business for the divisions of Components and AEG KABEL was also positive. The unsatisfactory situation affecting Office and Communication Systems, on the other hand, continued unabated.

**Consolidated Sales by Regions**





Incoming orders, at DM 13.9 billion, exceeded the 1988 level by 17 %. In Transportation Systems, AEG was awarded some major orders for the automatic local transit systems People Mover and M-Bahn. Important orders were also received for letter distribution systems from the US and Canadian postal authorities.

With effect from June 30, 1989, AEG's operations in aviation, space technology and defense systems were hived off and transferred to Deutsche Aerospace AG. At the same time Daimler-Benz AG took over AEG's research institutes along with their more than 400 employees.

### Activities in Aviation, Space Systems and Defense Systems Concentrated in Deutsche Aerospace

Deutsche Aerospace AG (DASA), which was founded on May 19, 1989, encompasses the companies Dornier, MTU and Telefunken Systemtechnik (TST). All activities and measures undertaken by these subsidiaries have been conducted for the account of DASA since January 1, 1989. At the end of 1989, Deutsche Aerospace AG acquired a majority of the voting rights in Messerschmitt-Bölkow-Blohm GmbH (MBB), following approval for the merger by the German Federal Minister for Economics.

Although competition in the aerospace industry grew tougher worldwide, Deutsche Aerospace increased its business volume further.

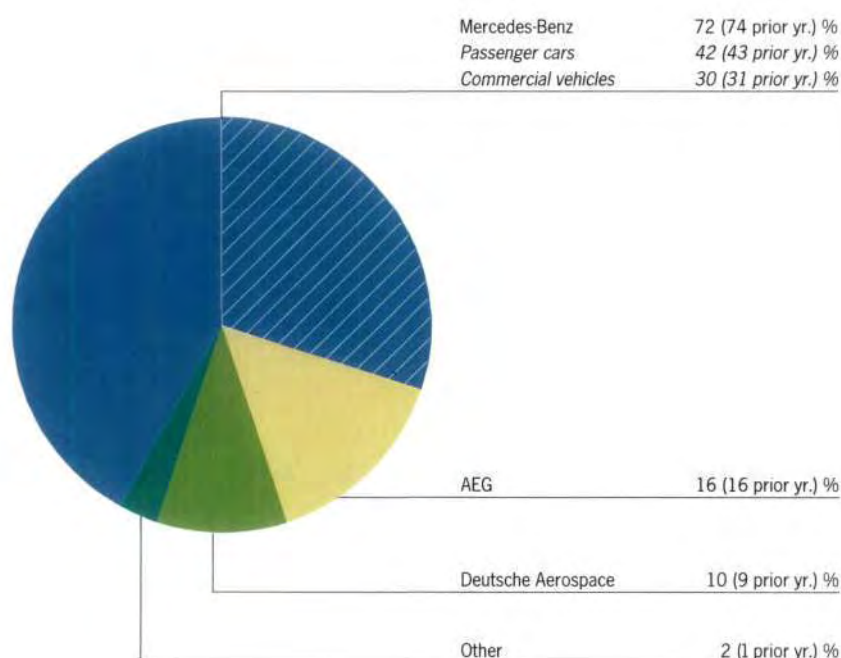
At Dornier, the Aviation and Space Technology divisions were once more responsible for growth. The main sources of business were further deliveries of the Dornier 228 aircraft and various subassemblies for the Airbus program, as well as partial payment for the European remote sensing satellite ERS-1 and the COLUMBUS space station and Hermes orbital glider projects.

The MTU group again achieved most of its sales abroad. A gratifying contribution to this was made by MTU in Munich in the field of aero-engines, mainly on the civilian side. In the diesel engine sector (MTU Friedrichshafen), the main focus was once more on marine engines and on deliveries of 396-series engines to the USSR.

Due to the timing with regard to the settling of invoices, the sales figures of Telefunken Systemtechnik were below those for 1988. Prominent sources of sales were radar systems for the German armed forces, high-frequency equipment, the overhaul and repair program for the HAWK anti-aircraft system and the power supply system and integrated solar cells for the German telecommunications satellite DFS-KOPERNIKUS.

Incoming orders for DASA (excluding MBB) rose considerably, by 22 % to DM 11.1 billion; above-average growth was achieved by Dornier and TST.

### Consolidated Sales by Sectors



**Over 368,000 Employees in the Daimler-Benz Group**

At the end of 1989, the companies of the Daimler-Benz group employed 368,226 people worldwide (338,749 in 1988). Of these, 17,032 (1988: 15,732) were trainees and apprentices. The companies of Messerschmitt-Bölkow-Blohm, included for the first time, had a total of 24,194 employees.

Excluding MBB, the group's workforce in Germany rose again slightly in 1989. This was due principally to the taking on of new personnel in the car and commercial vehicle assembly plants. The number of employees abroad, by contrast, fell slightly; this was above all the result of the drop in output from our South American commercial vehicle companies.

At year-end Mercedes-Benz employed 223,219 people, AEG 77,722 and Deutsche Aerospace 62,959. Daimler-Benz AG — counted for the first time as a holding company, and including the central research activities and services — had 3,538 employees.

**Group Purchasing Volume Up Again**

Worldwide, in the year under review the Daimler-Benz group purchased goods and services to a value of DM 45 billion (DM 43 billion in 1988). The purchasing volume of Mercedes-Benz AG amounted to nearly three fourths of this at DM 33 billion. As in the pre-

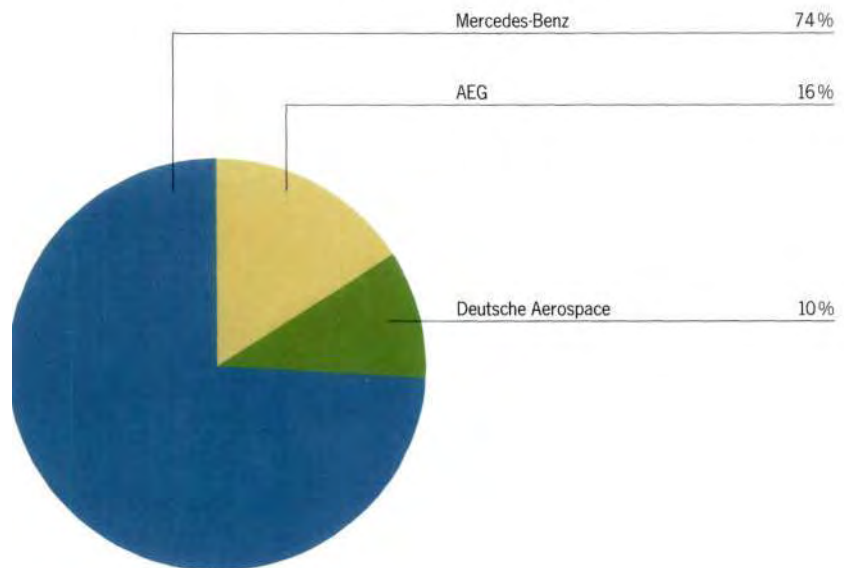
vious year AEG purchased goods worth DM 7.2 billion, while those of Deutsche Aerospace reached DM 4.3 billion.

During the year under review, the trend towards increases in the prices of raw materials, capital goods and direct materials continued initially. In particular, this applied to the products of the steel and plastic processing industries. Despite continued strong demand, the price situation eased in the course of the year. A greater increase in material expenses was prevented by intensified international sourcing, the pooling of comparable requirements, contracts with a life of several years and value analyses.

In all corporate units we further increased supplies especially from EC countries. We are pursuing the objective of intensifying our purchasing activities in those markets where high-quality products are available at favorable prices. As a result of this Daimler-Benz AG set up coordination offices in order to intensify foreign sourcing as well as to support the corporate units in their purchasing activities in the countries concerned.

To further optimize these procurement logistics — for instance by means of just-in-time systems and logistic projects — we have improved the flow of materials and information and reduced costs.

**Purchasing Volume of the Daimler-Benz Group**  
DM 45 billion (1988: DM 43 billion)





The corporate units within the Daimler-Benz group cooperate intensively and closely with the supply industry. As far as this is possible, we will further expand our traditional cooperation with medium and small-sized suppliers, with the industry of Berlin as well as with social institutions, such as workshops for the handicapped. At this point, we should like to express our thanks to all supply, transport and service-rendering companies for their good cooperation.

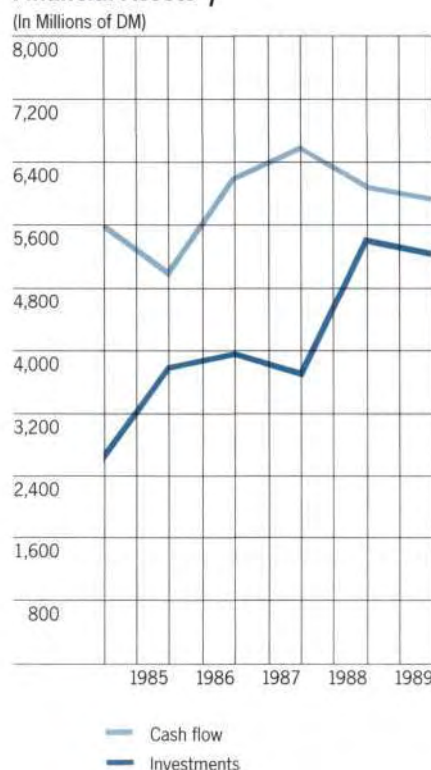
#### Higher Capital Spending Volume

In the year under review, substantial funds were again invested to secure the future existence of the corporate units within the Daimler-Benz group. Despite good capacity utilization in the capital goods sector, we were able to implement our investment program smoothly and according to schedule. Additions to fixed assets in the group amounted to DM 5.9 billion (DM 5.1 billion in 1988). Daimler-Benz invested DM 0.1 billion in intangible assets and DM 0.4 billion in financial assets. In total, DM 12 billion of this amount was accounted for by the first-time inclusion of the fixed assets of Messerschmitt-Bölkow-Blohm in the con-

solidated balance sheet. Additions to intangible, fixed and financial assets of DM 5.2 billion (without MBB) in the year under review were again fully financed from the cash flow of DM 6.0 billion (1988: DM 6.1 billion).

The goodwill of DM 12 billion, arising especially from the acquisition of capital interest in Messerschmitt-Bölkow-Blohm, increased the investment volume to a total of DM 7.6 billion. Together with the previous year's goodwill of DM 15 billion resulting from the re-structuring of the Daimler-Benz group, they are directly offset against the stockholders' equity of the group.

#### Financing of Investments in Intangible, Fixed and Financial Assets \*)



Of the total additions to the Daimler-Benz group's fixed assets, DM 3.0 billion were invested in Mercedes-Benz. The main investments focus on the passenger car division, with additions and further improvements to the product range, and on the introduction of new technologies. AEG again invested DM 0.7 billion, predominantly in the extension and modernization of production facilities. At Deutsche Aerospace, investments totaling DM 0.6 billion were made for the preparation of new products and production lines.

The investment in vehicle leasing of DM 3.1 billion (1988: DM 2.5 billion) is financed from the depreciations and disposals of fixed assets against this, and by sequential additions to liabilities. The accumulated liabilities for the refinancing of our leasing and sales financing activities total DM 4.5 billion (1988: DM 3.5 billion). During the year under review we issued another Euro-bond (C\$ 75 million), which has been included above.

#### More than DM 5 Billion Invested in Research and Development

Expenditure on research and development in the Daimler-Benz group (without MBB) increased substantially in 1989, from DM 4.7 billion to DM 5.5 billion. Worldwide, more than 24,000 people are working towards securing and extending our position as an integrated technology group.

At Daimler-Benz AG, the group's research activities are concentrated in the central Research and Technology division. The incorporation of AEG's research institutes in this central division means that 1,500 employees are working in central research and systems development alone. It is their task to work on research programs or research projects — either on their own initiative or on orders from the corporate units — in those areas technology which are significant for the future competitive position of the Daimler-Benz group.

In the Passenger Car and Commercial Vehicle divisions of Mercedes-Benz DM 2.8 billion was spent on research and development.

In the Passenger Car sector, we launched the new SL roadster (R 129) in March 1989. The mid-series cars and cross-country vehicles were refined and improved in numerous details and presented to the market in the fall. The three-liter engines are now also available with four-valve technology, the model designations being 300 E/TE/CE-24. Long-wheelbase versions of the 250 D and 260 E models were presented. The "Sportline" package for compact and mid-series cars represents an attractive appointments alternative for customers who wish for a more sporty touch. The S-class models were refined in several details. Since February 1989, we have been producing new diesel engines with particulate emissions reduced by another 40%.

In the spring of 1990, the model range was extended by the addition of the 190 E 1.8 whose favorable cost/benefit ratio will go a long way towards winning over new customers to the marque of Mercedes-Benz.

In the Commercial Vehicle division, we developed special versions of both the lightweight and the new heavy-duty trucks which are geared towards the growing volume of bulky yet relatively light goods to be transported. Our regular-service and touring coach bus ranges have been extended by the addition of new models which meet the growing demands for comfort and exclusive appointments.

Our comprehensive range of services, which together with the vehicles combine to make up a systems package, enables haulage operators to organize their fleets more efficiently. As a contribution to environmental protection, we developed the LEV (Low Emission Vehicle) concept which uses new, innovative technology to significantly reduce pollutant and noise emissions.

At AEG, expenditure on research and development rose 8 % to DM 787 million. More than 4,600 employees are working on some 400 major projects concerned with the basic development of new products and processes, predominantly in the fields of digital communication, microelectronics and information and communication technology. A new project for document processing, DIADEM, was introduced in the field of communication. In micro-systems technology, we developed user-specific system modules which afford economical solutions in industrial electronics as well as in motor vehicle, household and office applications. In the field of large-area electronics, we are investigating possibilities of applying electronic circuits on glass or other electrically inactive materials, for use in information and communication systems. AEG is involved in 50 research projects carried out in cooperation with partners both inside and outside Germany.

The companies within the DASA group (without MBB) spent DM 1.8 billion — 23 % of sales — on research and development. Research for own-account projects amounted to DM 589 million.

In the aviation sector, our activities focused on the A 330/A 340 Airbus programs, the Dornier 328, the STINGER license production program and important subsystems for the JF 90/EFA European Fighter Aircraft. In space technology, the emphasis was on the spaceplane Hermes for which we are developing the life support system, the fuel cell system for energy supply and the space suit for extra-vehicular activity. In the defense technology sector, development work for the ROLAND air defense system and the TORNADO were continued. We also continued work on engines for commercial and executive aircraft. The medical systems sector introduced the compact lithotripter which we specially developed for smaller hospitals. We received public-sector development orders relating to solar and wind energy projects.

### **Successful Conclusion of the Group's Restructuring**

In 1989, Daimler-Benz successfully concluded the decisive chapter towards creating an integrated technology group. The automotive business was transferred to the newly founded Mercedes-Benz AG; activities in the aerospace sector are centralized under Deutsche Aerospace AG. A decision has been made to found a fourth corporate unit — Daimler-Benz InterServices (debis) AG, comprising several services such as a software house, finance services, insurance, and trading and marketing services. The new structure of the group, with Daimler-Benz AG as the executive holding company and market-orientated corporate units, provides the legal and organizational basis to allow systematic and effective use of the resources and the complex know-how existing in the overall group.

### **New Accounting Principles in the Daimler-Benz Group**

Concomitant with the restructuring into an integrated high-technology group which operates all over the world, new accounting policies were applied to the consolidated financial statements for 1989. As a company engaged only in the automobile business, we traditionally used to pursue an accounting and valuation policy which scarcely, if at all, allowed the newly created high-technology group to be accurately assessed on an international scale. However, proper assessment of the earning power and financial strength of a company is of great significance when it comes to capital procurement. The intention of trading the Daimler-Benz share at the most important foreign stock exchanges requires a balance sheet structure and disclosure of stockholders' equity which meet internationally customary standards. For this reason, the provisions for old-age pensions and inventories in the first financial statement of the new Daimler-Benz group are aligned with the valuation rules permissible under tax laws. Income from the revaluation is charged to Daimler-Benz's stockholders' equity and is thus retained within the group without reductions.

The change in valuation applies only to the consolidated financial statements; for the financial statements of Daimler-Benz AG as well as Mercedes-Benz AG, the previous accounting and valuation principles have been retained.

### **Consolidated Net Income Characterized by Income not Generated during the Period under Review**

The 1989 consolidated statement of income shows a net income of DM 6.8 billion. By far the greatest proportion of that amount was not, however, generated and taxed in 1989 but in the preceding years. The increase represents a one-time amount resulting from the changed valuation of the provisions for old-age pensions and of inventories. They were contrasted by one-time expenses in connection with the restructuring of the group. Excluding special influences which cannot be attributed to the year under review, the group's consolidated net income reached the previous year's level, which amounted to DM 1.7 billion.

In 1989, the operating income of the Passenger Car division of Mercedes-Benz was on a very high level. The decline in the sales of diesel cars in Germany and the tougher competitive conditions in North America were compensated for by positive business and income develop-

ments in most of the other high-volume markets. In the Commercial Vehicle division improvements in earnings were observed in Germany as well as in the foreign production companies, especially due to the positive sales situation in Europe. The earnings of AEG were adversely affected by investments in fields of activity with a promising future, as well as by the structural streamlining of various divisions. Likewise, the earnings of Deutsche Aerospace, newly founded in 1989, were influenced by high investments in securing the future existence of the corporate unit.

In the non-operating area, the group's interest income rose by 10 % to DM 1.1 billion while liquidity increased moderately. For subsidiaries in high-inflation countries, a monetary adjustment was made on the financial statements, as in previous years, which to some extent eliminates apparent profits.

#### **Internationally more Comprehensible Structure of the Consolidated Balance Sheet**

Because of the expansion of business volume and the first-time inclusion of Messerschmitt-Bölkow-Blohm in the consolidated balance sheet, the balance sheet total rose to DM 62.7 billion (1988: DM 51.9 billion). On the assets side, the proportions of fixed and current assets have changed only insignificantly, despite the first-time inclusion of the MBB group. Within the current assets, the proportion of inventories, now valued in accordance with tax law principles, has increased; minus the advance payments received, they now account for 20 % (1988: 16 %) of the balance sheet total. On the liabilities side, the equity ratio rose from 21 % to 26 %. This increase is due to the allocation of funds from the capital increase in November 1989 as well as to our new valuation policy. This contrasted with goodwill acquired in 1988 and 1989 totaling DM 2.8 billion; this was completely offset against stockholders' equity in the year under review. Provisions increased in absolute terms; their share of total equity now amounts to 43 % (1988: 50 %).

Due to the increase in stockholders' equity, coverage of fixed assets improved substantially, from 79 % to 109 %. This does not include the inventory of vehicles — risen from DM 3.7 to DM 5.0 billion — belonging to the vigorously expanding leasing business which is mainly financed by borrowing.

Including the medium and long-term provisions, especially provisions for old-age pensions, the share of medium and long-term capital in the consolidated balance sheet total amounts to 58 %. This means that both non-current assets and the inventories are covered in full.

#### **Allocation of Earnings**

Following the restructuring of the group, the net income of Daimler-Benz AG, at DM 1,120 million, is determined above all by earnings transferred by the corporate units to the executive holding company. To this extent it is not comparable with last year's surplus of a company directly active in industrial fields. In accordance with § 58 Aktiengesetz (German Stock Corporations Law), half of this sum, DM 560 million, was transferred to retained earnings.

With the approval of the Supervisory Board, in November 1989 we used a further portion, amounting to DM 212 million, from the authorized share capital increase totaling DM 500 million, and raised capital at a ratio of one for ten with an issue price of DM 460 per share. This gained us DM 1.9 billion. The capital stock thus amounts to DM 2,330 million. The new shares are already fully entitled to dividends for the 1989 business year. Of the authorized share capital increase approved by the shareholders on July 2, 1986, an amount of DM 112 million is still available until June 30, 1991.

To the Annual General Meeting of Stockholders, we propose the paying out of a dividend of DM 12 per DM 50 share from the raised capital stock. Due to the latter, the total dividend paid increases from DM 504 million to DM 555 million. The remaining DM 5 million is to be carried forward to 1990.

## Outlook

For the current business year, the German automotive industry expects demand to shift from abroad to the domestic market. In the European countries, except Germany, and in the USA, a cyclical downturn is expected. The Japanese market will remain receptive.

In view of the gratifying volume of incoming orders, Mercedes-Benz expects this year's sales of passenger cars and commercial vehicles to reach last year's level again. We are confident that 1990 will be another successful year. In the car sector, a slight slowdown in domestic sales as a result of the tax levied on employee discounts will contrast with a further rise in foreign sales. On the commercial vehicle side we will benefit from the favorable domestic business climate; abroad, we can expect sales on the same general level as in 1989.

AEG expects to be able to further increase its sales — above all in the foreign markets — in 1990. Business volume is likely to expand significantly, especially in the fields of automation systems, microelectronics and transportation systems. Incoming orders are to reach last year's high level again.

With the incorporation of MBB into Deutsche Aerospace, we now have a broad range of expertise and can draw on a great depth of experience; this gives us the capability to head cooperative international programs and projects in many different areas of high technology. Our highly qualified employees provide us with a solid foundation for optimum application of the group's concentrated knowledge and skill in joint projects and in the management of entire systems, not just in the aerospace and defense sectors but in other areas as well. Our order backlog, which amounted to DM 25 billion at the end of 1989 (including MBB) ensures a high level of employment and sales for the next two years. At the same time, the proportion of military business is continuing to fall.

The current collective wage negotiations constitute a risk to our entire business potential. In order to withstand the pressure of competition in the international markets, and in order to secure employment, we require collective wage agreements characterized by moderation and an eye to the overall economic situation of the future.

Over the next five years, higher investments in fixed assets will be made in all sectors of the group. The funds planned to be spent, totaling approx. DM 30 billion, represent by far the highest investment volume for the group to date. To meet the growing demands from the markets, we will, during the same period, spend over DM 42 billion on research and development.

We expect the creation of the single European market from 1993 and the far-reaching political and economic changes in Europe to provide additional stimuli for the expansion of the business volumes of all corporate units within the Daimler-Benz group. Continuing integration within Europe, the increasing globalization of markets and the emergence of new areas of industrial growth have caused us to set up corporate representative offices in some of the world's major cities — Berlin, Bonn, Brussels, Hong Kong and Washington.



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# Mercedes-Benz

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In Millions of DM	1989	1988
Sales	56,367	54,895
Investments in fixed assets	3,003	.
R+D expense	2,816	.
Employees	223,219	.

Mercedes-Benz AG, which was founded on July 1, 1989, has taken over the Passenger Car and Commercial Vehicle divisions of Daimler-Benz AG, which is its sole stockholder. Since January 1, 1989, the vehicle business has been managed for the account of Mercedes-Benz. Shares in the foreign production and sales companies in the automotive sector have remained with Daimler-Benz AG in the restructuring process. Management and control of these companies nevertheless lies with Mercedes-Benz AG, which forms with them an economic group.

In its first financial year, Mercedes-Benz benefitted from the high demand for automobiles worldwide. Sales increased in the group by 3% to DM 56.4 billion. Of this, 58% was accounted for by the Passenger Car division, and 42% by commercial vehicles. The EC market has further increased in significance: 58.4% (1988: 56.5%) of business was generated in this area. Whilst domestic sales at DM 20.4 billion were 2% higher than for the previous year, foreign sales amounted to DM 36.0 billion. Sales of Mercedes-Benz AG alone amounted to DM 43.6 billion.

Throughout the world, Mercedes-Benz employees numbered 223,219; 173,510 were employed in Germany, and 49,709 abroad.

A total of DM 3.0 billion was invested in fixed assets, of which DM 2.0 billion alone was for domestic plants. The emphasis lay in the Passenger Car division, to supplement and further improve the product range, and also to introduce

new technologies. The efficiency of the field organization was further increased with investment running at DM 310 million. A total of DM 2.8 billion was spent on research and development.

The Mercedes-Benz Sales Organization for Germany (MBVD) was founded in the home market. By dividing the German vehicle market into five regions, we are achieving closer customer and market proximity, in order to be able to act more rapidly in the future, and with greater flexibility and efficiency.

By 1994, a total of DM 20 billion is to be invested in fixed assets. This is in addition to research and development expenditure of DM 13 billion.

## Passenger Car Division

In Millions of DM	1989	1988
Sales	32,887	31,833
Investments in fixed assets	1,850	1,880
R+D expense	1,865	.
Production (Units)	542,160	559,713
Employees	91,765	.

### High Demand for Cars in Western Europe and Japan

The car maintained its popularity and its attractiveness in 1989. Car production for the seventh year in succession reached a new high level, of 36 million cars worldwide (34.7 million in 1988).



The S-class. Once again "safest car in the world" in the USA in 1989



The exciting continuation of a great legend. The new SL



However, the demand for cars in the USA lost a considerable amount of momentum; sales dropped to 9.9 million units (1988: 10.6). Domestic sales of cars manufactured in the USA declined in 1989 by 6% to 7.1 million so that output went down to 6.8 million units (1988: 7.1). Sales of imported vehicles decreased by 9% to 2.8 million cars with a market share of 28.5% (1988: 29.1%). Almost all European manufacturers suffered a fall in sales. Sales of cars imported from Japan also declined, by 5% to 2.0 million units, but the market share of Japanese manufacturers nevertheless increased due to the rise in sales of locally made vehicles from 25.4 to 28.2%.

In Japan, new registrations of passenger cars rose by 18% to 4.4 million cars. The import marques also benefitted from this, although their market share of 4.1% (1988: 3.6%) is still very small in international terms. German manufacturers succeeded for the first time in selling more than 120,000 cars on the Japanese market, which represents approximately two thirds of all imported cars. Exports by the Japanese car industry decreased in total by 1% to 4.4 million cars; domestic output nevertheless increased by 10% to the record level of 9.1 million cars.

In the European Community, new registrations in 1989 were, at 12.3 million cars, 4% higher than in the prior year.

The buoyant economic climate for cars in Western Europe once more resulted in a further increase in output of 5% to 13.7 million.

#### **Federal Republic of Germany: Car Exports at Record Level**

German car manufacturers benefitted in 1989 from the favorable development of the home market, in the rest of Western Europe and also Japan. In the Federal Republic of Germany, new registrations at 2.8 million cars were at the unusually high level of the last four years. Whereas some German manufacturers' sales were only marginally higher in 1989, sales figures for foreign competitors clearly rose, by 5% to 0.9 million



Looking better and better as time goes by: the S-class coupé



Dynamic and elegant.  
The exclusive  
300 CE-24 coupé

The new 200-300 cars of the mid-series. Premiered after model refinements in the fall of 1989





units, and their market share from 29.1% to 30.2%.

Environmentally compatible cars were again in strong demand. On average for the year, 50% (1988: 38%) of all newly registered gasoline-engined cars were equipped with a three-way catalytic converter. New registrations of diesel cars were again lower than the level of the previous year, by more than 23%. The crucial issue in this respect was the continuing uncertainty on the part of diesel car purchasers, principally due to the withdrawal of the exemption from vehicle tax and the refusal to grant the permit to drive under certain smog conditions. A clear improvement in the sales situation for diesel vehicles can only be expected

if measures incomprehensible from an environment policy point of view are revised.

The deliveries of German car manufacturers to foreign markets increased by 9% to a new record level of 2.7 million automobiles. Higher exports to neighboring West European markets and Japan contrasted with the limited receptiveness of the US market. Production by the German car industry rose by 5% to 4.6 million cars.

**Mercedes-Benz:  
Successful S-class Sales**

The decline in total new registrations in the domestic market to 247,100 Mercedes-Benz cars had been caused by lower diesel car sales. The reduction of

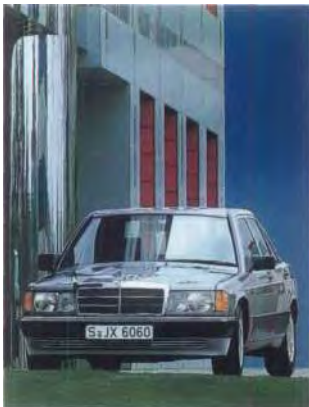
23,500 units (down 23 %) for our diesel cars corresponds with the general development of the German diesel market. In our compact series, new registrations only decreased slightly, by 4% to 92,600 units, due to the sales success of the gasoline models. However, new registrations of cars in the mid-series went down 14% to 134,100 units. Since the presentation of the refined models in the fall of 1989, incoming orders and sales have clearly risen. The results for our S-class sedans and coupes were very positive; new registrations in Germany were 14% above the previous year, at 20,400 units.

**Favorable Foreign Markets**

With 301,500 vehicles foreign sales of Mercedes-Benz were 3% above the previous year. This growth was mainly due to the compact and mid-series.

In the European Community, except for Germany, 125,100 Mercedes-Benz cars (1988: 116,600) were sold (+ 7%). Italy was, after the Federal Republic, again our most important market in Europe, with a rise of 14% to 34,600 cars. In the United Kingdom we achieved our highest sales figure to date with 28,800 cars (+19%). Whilst Mercedes-Benz in France further increased car sales to 27,600 units, sales in Belgium dropped by 4% to 11,800. In the Netherlands, sales went down slightly to 10,700. The receptiveness of the Spanish market continued uninterrupted; at 7,100 new Mercedes-Benz cars, we brought more cars into the market than ever before (+6%).

In the USA, the depressed market climate had an adverse effect on our passenger car business. With a decrease of 10% to 75,700 cars, we still managed to achieve a satisfactory business volume in comparison with our major European competitors. In East Asia we sold approximately 45,000 cars for the first time.



The high-quality Sportline version of the 190 models is becoming increasingly popular



An exclusive shape and a versatile interior characterize the T-models, which received a large number of improvements in 1989



Now even more elegance, comfort and power for the "best cross-country vehicle in the world"

We were particularly successful in the Japanese market where Mercedes-Benz achieved a growth of 39% with 31,500 new car registrations. For the year as a whole, Mercedes-Benz manufactured 542,200 cars (down 3%); the proportion of diesel cars, which in 1986 was still at 35.3%, went down to 24.5%.

At Steyr-Daimler Puch AG in Graz, Austria, 3,900 (1988: 5,600) cross-country vehicles were manufactured during the year under review.

### New SL Successfully Received by the Market

The new roadster has been very successfully received by the market since the beginning of series manufacture in mid-1989. We offer the SL in three engine versions: the 300 SL with 140 kW/190 hp, the 300 SL-24 (6 cylinders with four-valve technology and 170 kW/231 hp) and the 500 SL (8 cylinders with four-valve technology; 240 kW/326 hp). With its large number of innovations, the SL represents the latest state of the art in automotive engineering.

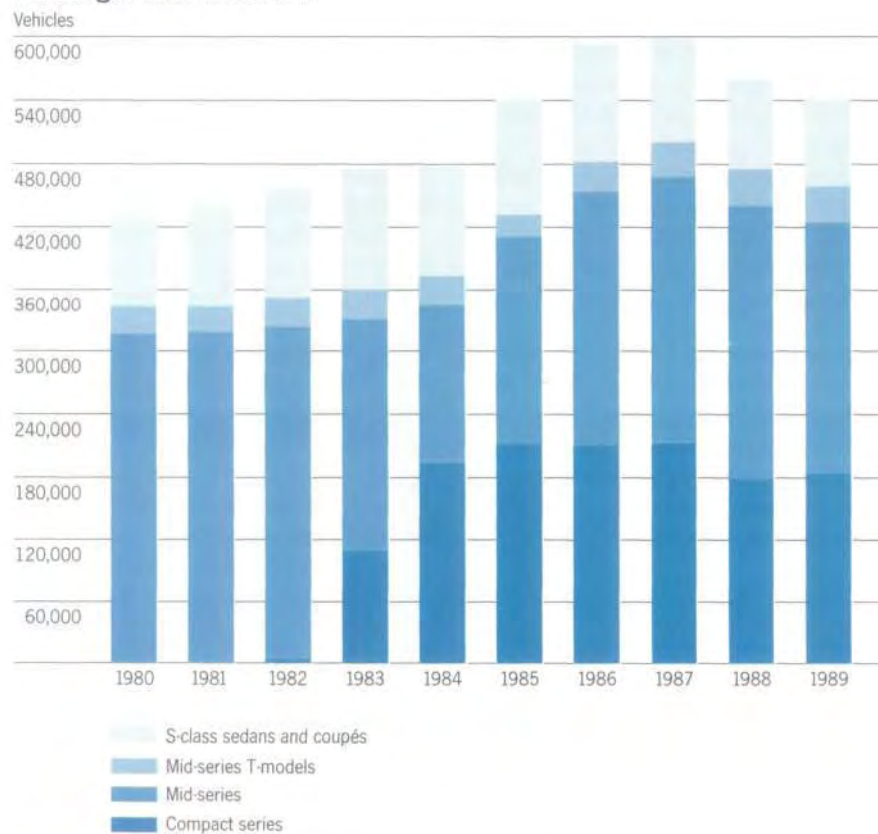
### Extended Model Range and Improved Diesel Engines

Due to many technical improvements and new models, Mercedes-Benz has complemented and further developed its car range. Since the fall of 1989, we have been offering our customers the mid-series with upgraded appointments and technology as well as a modified design. The 300 E/TE/CE-24 represent new top models with particularly efficient engines employing four-valve technology. Early in 1990 we extended our model range in the compact series with the 190 E 1.8. This car should encourage new customers graduating to a Mercedes-Benz. Within the four series, we thus offer 55 various sedan, coupe and convertible models.

Since 1989, we have been offering our customers a "Sportline" version, both for the compact series and the sedans and T-models in the mid-series. The "sports package" comprises lower running gear with stiffer springs and dampers, more direct steering, light-alloy wheels with wide tires and sports seats in the front and rear. In 1989 our S-class, which now comprises 12 model versions, was further refined in some details. New drive technology with permanent four-wheel drive, an interior resembling that of a sedan and reworked design characterize the refined Mercedes-Benz cross-country vehicles.

Since February 1989, Mercedes-Benz has only supplied diesel engines in which gaseous emissions have been further reduced, and particulate emissions reduced by 40%. This new generation already fulfills the EC particulate values planned for 1992, which are comparable with the strict regulations in the USA. The naturally aspirated engines now, as already in the turbo-diesel, have an injection pump with automatic altitude correction. This prevents smoke output by the diesel during driving at higher altitudes.

## Passenger Car Production







### Many Years of Experience in Car Safety

Mercedes-Benz can look back on over fifty years of experience in the active and passive safety of cars. We have constantly pointed the way of the future through various measures, and thus made an important contribution to constantly improving safety in traffic. More than 500,000 cars have been fitted with a driver's airbag. Since 1988, a front-seat passenger airbag has been optionally available in the mid-series and S-class, as well as in the roadster, and it has been subject to increasing demand.



Satisfied customers — primary aim at Mercedes-Benz right from vehicle development through to service

### DM 1.9 Billion Invested in the Car Division

In 1989, Mercedes-Benz invested approximately DM 1.9 billion in its Passenger Car division for new products and efficient, innovative manufacturing plant, and also for the preparation of future assignments.

At the Untertürkheim plant, new production equipment was set up for axle manufacture and assembly, and the buildings for engine manufacture and the light-alloy foundry were extended. In Sindelfingen we installed two transfer presses for large parts, which guarantee uniformly high quality of bodywork parts with the highest productivity. The main areas of investment at the Bremen plant were two fully mechanized press lines and new forms of work organization in the bodyshell and assembly sections.

Our investments for improving environmental protection in manufacture are principally aimed at air emissions, liquid waste and residue from production. Emission-reducing equipment in paint systems are the focus of attention.

Simulation test rigs offer an excellent way of reproducing measured results from road tests. At the Sindelfingen plant, we have commenced operation of a "heat tunnel". It can simulate all climatic conditions in the temperature range from +10°C to +50°C with any desired amount of load for a vehicle. A bodywork test rig is used in Sindelfingen for operation strength testing in poor road conditions; it is used to simulate vertical and lateral forces, and above all brake forces.

### Effective Collaboration with the Supply Industry

In the year under review Mercedes-Benz again worked closely with its trusted suppliers. In the face of internationally growing competition, partnership with companies in the supply sectors is gaining in importance. We have therefore targeted our activities in purchasing and procurement logistics towards further development of our connections with suppliers.

Shorter model cycles, more comprehensive vehicle equipment and reduced development times also provide the supply industry with new challenges. Further development of strategies and programs which intensify the joint process of development of vehicle components is the focal point of efforts in the field of purchasing and logistics. We are expecting impulses for our purchasing business both from implementation of the single European market and also from other countries where qualitatively high-value products are available at reasonable prices.

### Successful Involvement in Motor Racing

Mercedes-Benz emphasized in 1989 its prominent position in automobile technology through impressive successes in motor racing. Both in Group A (touring car) races, where the cars are closely related to series models, and in the high-technology sports prototypes of Group C, Mercedes-Benz cars were successful.

The Silver Arrows of the Sauber-Mercedes team gained also a great victory in the world championships for Group C, both in team and driver ratings. In total, the success record for 1989 indicates six out of seven victories in world championship races. The Mercedes double victory in the international sports car race with the greatest tradition, the 24 hours at Le Mans, was quite stunning. Mercedes drivers achieved the

first four places in the driver ratings for the prototype world championships.

Mercedes drivers also achieved the greatest number of individual successes in the International German Touring Car Championships in 1989.

### Prospects for 1990

The German car industry is expecting positive purchasing stimuli in 1990 for domestic business due from the increase in disposable income as a result of tax reforms and the tax benefits in favor of smaller cars below 1.4 liters capacity. The risks at large are predominantly from the current wage negotiations and

rising interest rates. Altogether we are expecting registrations in the Federal Republic of Germany to reach the level of the previous year. In other European countries, particularly the EC, sales prospects are still favorable. The Japanese market will remain receptive. However, the US market must continue to be seen as problematic. Mercedes-Benz is confident that it can raise output and sales of cars as a whole; this, however, also depends on the course of the approaching wage negotiations.

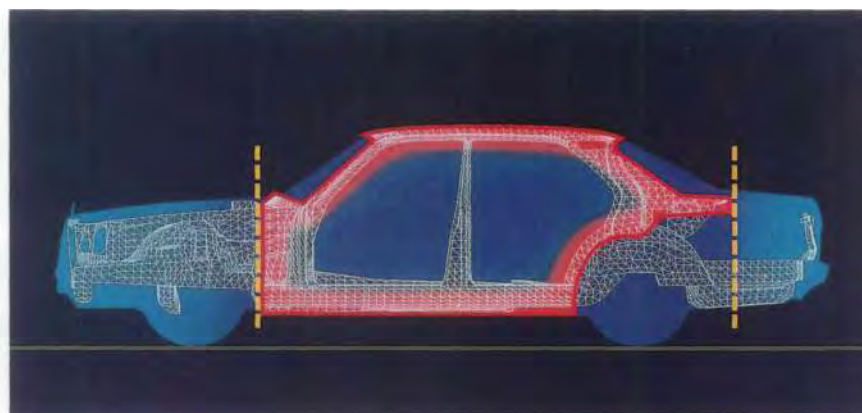
There is still uncertainty as to the further development of business with our employees, which in 1990 is fully affect-

ed for the first time by the new tax on employee discounts, and also the stance of political figures on diesel cars. The recent growth rates in incoming orders for Mercedes-Benz passenger cars, in some cases reaching double figures, support our overall optimistic sales expectations. Abroad, we are above all expecting momentum from the Japanese market.

Mercedes-Benz will in future present at least one product innovation each year, presenting fundamental progress in technology and design. We will thereby further consolidate the leading position in our traditional market sector of high-quality cars in the international car markets.

The winner in seven races out of eight. The Mercedes C9 was first in Le Mans and won the 1989 World Sports Prototype Car Championship

Introduced by Mercedes-Benz 37 years ago and constantly improved: deformable front and rear sections and a rigid passenger compartment



The new V8 5-liter engine with four-valve technology in the SL has already reached maturity. It was used with success as a racing version in the Sauber-Mercedes



## Commercial Vehicle Division

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In Millions of DM	1989	1988
Sales	23,480	23,062
Investments in fixed assets	783	796
R+D expense	951	
Production (Units)	260,956	257,951
Employees	86,891	

### Continuing High Demand for Commercial Vehicles

The favorable economic environment and the stable investment climate provided the framework for a continued positive business trend for commercial vehicles in Europe's industrialized countries. Due to flagging of the market in North and South America, world production output in 1989 was below that of the previous year (14.0 million) with a total of 13.5 million units.

In the USA new registrations fell by 2 % to 5.1 million commercial vehicles; output by the American commercial vehicle industry also declined, by 2 % to 4.0 million units. In Argentina and Brazil, political and economic problems took considerable toll. In Japan, new vehicle registrations amounted to 2.9 million units, slightly below the previous year's record level. Exports by Japanese manufacturers, at 1.5 million units, were 11 % below the previous year's level, and production output fell by 12 % to 4.0 million vehicles.

In the commercial vehicle markets of Western Europe, the trend in terms of quantity of the last few years continued. The market was also stimulated by a strategy adopted by many transport companies of preparing themselves for the single European market as from 1993, and for the resultant sharpening of competition, by equipping themselves with highly up-to-date economical vehicles. In the countries of the EC, total new registrations went up by 7 % to 1.7 million units; production output increased by 7% to 1.9 million, in the actual truck class alone (from 6 tonnes GVM) by 4% to 293,000 vehicles.

### German Commercial Vehicle Industry: Further Increases in Unit Sales

In the Federal Republic of Germany, the demand for commercial vehicles was favored by lively investment in capital goods in 1989, and rose once more. New vehicle registrations increased in the domestic market by 8 % to 173,100 commercial vehicles; growth in the category over 6 tonnes was again considerable (+ 9 %), and for heavy-duty trucks even amounted to 14 %. Due to the continuing good economic situation in the other West European countries, German manufacturers were able to increase their exports by 4 % to 175,900 units.

During the year under review the German commercial vehicle industry manufactured 288,000 (+ 3 %) vehicles.



Mercedes-Benz developed and in 1989 introduced a new generation of heavy-duty large-volume trucks to meet transport requirement in the single European market



### Mercedes-Benz Commercial Vehicles on the Road to Success

In 1989, Mercedes-Benz AG further increased both output and sales, yet the available capacity was not sufficient to make full use of the market opportunities which presented themselves. Nevertheless, we successfully defended our position as the world's leading truck manufacturer, and improved it further in Western Europe.

In the year under review, the number of new registrations of Mercedes-Benz commercial vehicles in the Federal Republic of Germany rose by 7 % to 70,600 vans, trucks, buses, Unimogs and MB-tracs. With an increase of 16 % for heavy-duty trucks they were once again well over the average; our market share climbed from 52.1 % to 53.2 %.

Exports from our German plants rose by 6 % to 100,800 commercial vehicles. In the other countries of the European Community we had 79,000 newly registered trucks, topping our previous year's sales by 8 %. With an increase of 8 %, the United Kingdom took 20,100 units, France 20,000 (+5 %) and Spain 15,400 (+ 16 %).

### Fierce Competition in the Bus Sector

In the year under review, the bus market continued to be affected by stiff competition. Mercedes-Benz sold 1,800 buses in Germany, 5 % fewer than in 1988. Following an increase well above

average the previous year (+ 36 %), our export sales achieved further slight growth with 3,100 units. In the domestic plants of Mercedes-Benz AG 5,100 buses and bus chassis were manufactured during the year under review (up 2 %), and worldwide 19,100.

### Unimog and MB-trac Sales Down

Business in the Unimog and MB-trac sector was marked by the completion of a number of major orders, a drop in military business and a general decline of the market. Altogether, sales fell by 32 % to 5,600 units.

### Industrial Engine Sales Up Again

For the sectors of tractors, construction plant, buses, special-purpose vehicles and fork-lift trucks, sales of engines made in our domestic plants rose by 15 % to 15,800 units. In addition, 4,900 axles and gearboxes (1988: 6,200) were also sold. Like in the previous year, the group member-companies in Argentina, Brazil and Spain manufactured 14,100 industrial engines.



The O 600 range: compact, attractive buses for versatile application



Flexibility in action: the UNIMOG



The Spanish-made MB 100 D: the all-rounder for commerce and the trades



### Domestic Commercial Vehicle Output Raised

In 1989 our domestic plants made 160,900 commercial vehicles (+ 4 %). This growth involved nearly all vehicle categories. Output of the labor-intensive heavy-duty trucks went up by 24 %. Production of parts kits for manufacture and assembly abroad rose by 19 % to 12,800 units. Due to the positive order situation our domestic manufacturing plants were working to full capacity all the year.

### Diverse Trends among our Foreign Subsidiaries

In the year under review our foreign commercial vehicle companies were forced to reduce their output by a total of 3 % to 100,100 units. This was due in particular to the poor state of the markets in Brazil and Argentina. Worldwide, we manufactured 261,000 commercial vehicles, slightly topping the previous year's figure of 258,000 units.

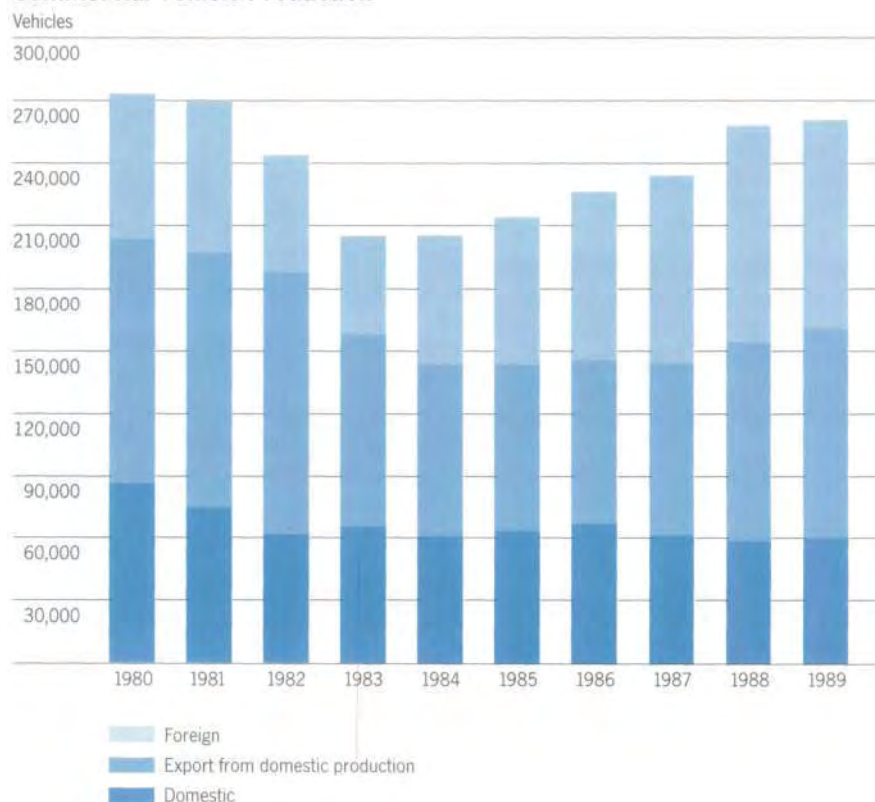
Sales by Mercedes-Benz Espana of Spanish-made vans rose by 8 % to 24,600 units. Production was raised by 7 % to 24,800 vans. Sales of commercial vehicles imported from the Federal Republic of Germany — especially heavy-duty trucks — also increased by 20 % to 5,100 units.

Towards the end of 1989, Mercedes-Benz AG and the Spanish truck manufacturer ENASA agreed on a letter of intent for a joint venture, with the permission of the Spanish government. Under this agreement — subject to the approval of the cartel offices — the Daimler-Benz group will take over 20 % of ENASA's capital stock from Spain's state-owned industrial holding INI. At the same time, MAN will acquire 60 % of ENASA's capital stock.

At Mercedes-Benz do Brasil, our largest company abroad, sales of Mercedes-Benz trucks and buses declined by 21 % to 27,600 vehicles in 1989. However, the company's strong position, with market shares of 43.4 % for trucks over 6 tonnes and 76.0 % for buses, has remained unchanged. Production was reduced to 38,200 vehicles (1988: 45,800). Mercedes-Benz Argentina once more suffered a considerable drop in sales, by 26 % to 3,100 units. Production was therefore reduced to 3,100 units.

In the Mexican market, due to the continued economic upturn, the demand for commercial vehicles has also revived encouragingly. The Fabrica de Auto-transportes Mexicana S.A. (FAMSA), in

### Commercial Vehicle Production





which Daimler-Benz increased its holding from 49 % to 80 % during the year under review, was able to profit from this positive trend in Mexico. Sales increased by 49 % to 3,400 commercial vehicles.

In the USA, the market for heavy-duty Class 8 trucks weakened by 2 % in 1989. This development also affected our subsidiary, Freightliner, whose truck sales in the USA fell by 3 % to 23,400 units. Freightliner's market share remained constant at 16.2%. In its US plants and in Canada, Freightliner produced a total of 26,500 heavy-duty trucks (1988: 26,800).

Mercedes-Benz of South Africa sold 4,000 commercial vehicles in 1989, 3 % more than the previous year. The market share for heavy-duty trucks increased from 56 % to 57 %, that for buses from 47 % to 55 %. Production output totaled 4,000 units (1988: 3,700).

The precarious economic situation in Turkey improved slightly in the year under review. Our Turkish affiliate, Otobus ve Motorlu Araclar Sanayii A.S. (OTOMARSAN) increased its domestic sales to 1,500 commercial vehicles (1988: 1,200). In 1989 Daimler-Benz raised its holding of OTOMARSAN's capital from 43.3 % to 50.3 %.

### Trends of the Associated Companies in Indonesia and Switzerland

The foreign commercial vehicle companies in which Daimler-Benz has a minority stake appear in the consolidated financial statements as associated companies. Their production volumes are not contained in the figures for the Mercedes-Benz group.

The Indonesian affiliates P.T. German Motor Manufacturing and P.T. Star Engines Indonesia, Wanaherang, and P.T. Star Motors Indonesia, Jakarta, sold 2,000 commercial vehicles (1988: 2,200), nearly matching the previous year's level.

NAW Nutzfahrzeuggesellschaft Arbon & Wetzikon AG, Switzerland, which converts and assembles Mercedes-Benz commercial vehicles in accordance with specialist customer requirements, achieved an output of 1,900 units, thereby not quite equaling the previous year's figure of 2,000 units.

### Joint Ventures

Our Chinese joint venture partner, the engineering group North Industries Corporation (Norinco), produced its first Mercedes-Benz heavy-duty trucks in Baotou, Inner Mongolia. We plan to supply 15,000 CKD vehicles to China in the next 6 years and to assemble them there.



The O 405 N low-floor bus for local public transport: comfortable and specially designed to cater for the handicapped



Mercedes-Benz buses made in our South American production facilities

A surface model of a turbocharger, created with the aid of Computer Aided Design (CAD)



A further industrialization project for Mercedes-Benz commercial vehicles was agreed with the state-owned Iraqi company SEAL. At a location south of Bagdad an assembly, pressing and engine plant is to be built up, with an axle and transmission plant to be added in a second phase. Assembly start-up, which involves trucks and buses, is planned for mid-1991.

**Many New Products and Product Improvements**

In the year under review as in previous years, the Mercedes-Benz range of individually equipped and environmentally acceptable commercial vehicles was complemented and extended by the addition of new and improved products.

In view of the growing demand for the transportation of bulky yet relatively lightweight goods, we presented a new generation of high-volume trucks at the 1989 Frankfurt International Motor Show.

Since 1989 we have been offering the T1 van, which was once again voted "van of the year" in the Netherlands, with a new power train and even more environmentally compatible engines. Throughout the product range, advanced engineering has improved transport capacity and efficiency, while fuel consumption has been drastically reduced. A whole series of innovations — such as the ABS/ASR safety package, electronic power shifting (EPS), a safer tanker design (TOPAS) and the new particulate trap — have made the commercial vehicle both safer and environmentally more acceptable.

We have extended our range of regular-service buses by the addition of new, low-floor models (O 405 N). The O 408 inter-urban bus, which is also new, meets the growing demand for buses which can operate on a regular-service basis while at the same time satisfying the need for comfort in excursion operation. The highly comfortable O 303 club buses can be fitted with every conceivable luxury, especially the O 303 "First Class" presented at the Frankfurt Motor Show.

In order to enhance transport efficiency, Mercedes-Benz has enlarged its package of services for the customer; together with the range of actual vehicles, an all-encompassing system is now available from a single source. One

example of this is the new fleet management system "MB Assistant", which has, among other things, a detailed breakdown of costs. The "Flexible Service System" is also new; instead of adhering to service intervals based on a set distance driven, this system uses a computer to determine the actual stress to which components are subjected and then indicates well in advance when maintenance will become necessary. The "Service Counter" system will also make application-oriented maintenance possible, for instance while a truck is en route abroad. The vehicle can in future be contacted anywhere and any time by telephone and by the Roadfax system developed by AEG.



In the heavy-duty category, Mercedes-Benz offers a complete product range for the construction industry



Setting an example in European goods transport: the entire heavy-duty series from

Mercedes-Benz was voted "Truck of the Year" by an international jury of specialist journalists



Mercedes-Benz municipal vehicles are indispensable when it comes to managing local services and waste disposal

### **The Heavy-Duty Series — Truck of the Year 1990**

An international jury of motor journalists voted the new Mercedes-Benz heavy-duty truck series "Truck of the Year 1990". We regard this distinction as recognition of research and development efforts, which have resulted in the most efficient range of models we can offer Mercedes-Benz customers all over the world. In addition to the high degree of efficiency arising from the high payloads, from the new, powerful engines and from the resultant high average speeds yet low fuel consumption, the journalists also praised the high versatility of the heavy-duty trucks.

### **Comprehensive Developments for Environmental Protection**

Besides raising overall efficiency and safety, one of our prime aims is the protection of the environment. For our trucks, vans, buses and Unimogs the LEV (Low Emission Vehicle) concept was developed. This comprises a package of innovative features which can greatly reduce exhaust gas and noise emissions.

The engines fitted in Mercedes-Benz commercial vehicles today already conform with the exhaust gas limits to become valid in Europe as from October 1990. Moreover all new or further-improved commercial vehicle engines will meet the strict exhaust gas and particu-

late norms valid in Switzerland from 1991. These stipulate a reduction of nitrogen oxide emissions by 50% compared with current limits and a considerable drop in particulate emissions. With the implementation of a series of measures, the noise levels of trucks with more than 150 kW engines are to be reduced from 88 dB (A) to 84 dB (A). This represents a 60% lessening of noise intensity.

### **High Level of Investment in New Products and Manufacturing Technology**

In the year under review we invested more than DM 300 million in our domestic plants and a further about DM 400 million in our manufacturing companies abroad. In Germany, priority was again accorded to preparing new products and extending the product range. Further resources went into standardizing production processes, into new production technology and into environmental protection. Investment by our subsidiaries abroad contributed mainly towards renewing product ranges, modifying capacity and modernization.



For the Class 8 heavy-duty truck market in North America, Mercedes-Benz offers a complete product range through its subsidiary Freightliner

Freightliner products are also subjected to extensive airflow testing





### Close Cooperation with Suppliers

In order to adjust our broad range of commercial vehicles to the specific requirements of individual markets, we must gear ourselves more to global procurement potential. In doing so, we will continue to work only with suppliers who fully meet our demands for reliability, quality and flexibility.

In the year under review we made more efficient use of the development potential of our suppliers, while further optimizing both support structures and the volume of items delivered in each specific instance. At the same time, more long-term supply contracts were concluded. In all of this our traditional close cooperation with suppliers proved its value once again. Aided by a smooth and efficient supply of materials, our production range was assured at all times.

Our extensive production range and upvalued vehicle equipment added new tasks in procurement logistics. Because

of this, we have intensified our activities aimed at optimizing transport and storage costs, extending our data transfer network with the supply industry and setting up just-in-time material call-up systems.

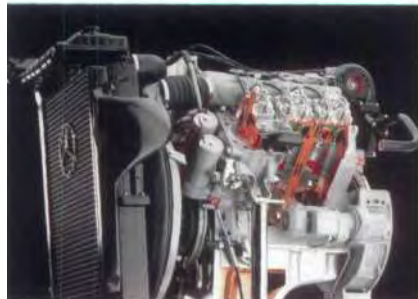
### Continued High Demand for Commercial Vehicles in Europe

After an upturn which has now lasted five years, the European commercial vehicle market has acquired remarkable momentum. We are expecting a certain consolidation at the current high level in 1990. In view of the good order situation for Mercedes-Benz commercial vehicles we feel sure that we can maintain our high level of sales.



"Intelligent" electronics. Logistical problems can be solved efficiently with the aid of MB-Assistant

A truck made in our Wörth plant on the dynamometer for noise testing. An important measure on the way to further reducing the noise emissions of our trucks



The compact V6 OM 441 LA engine (249 kW) for large-volume trucks

The single European market will certainly lead to even keener competition. This will apply especially to the transport market. Under these conditions, the efficient management of a fleet will become a decisive factor in the commercial success of our customers. Our complex range of services, which provide tailor-made approaches to optimal fleet control and intelligent transport logistics, meets these challenges.

Future growth in the commercial vehicle industry makes it necessary for us to adopt a worldwide approach to procurement, manufacturing and marketing. With our many production and assembly plants both inside and outside Europe,

we are in a better position than any other European manufacturer in this respect.

After extensive preliminary talks we signed a letter of intent with "IFA-Kombinat Nutzkraftwagen", the GDR's only commercial vehicle manufacturer/for the joint development, production and sale of commercial vehicles. Our aim here is to make a positive contribution towards integrating the GDR as a center for production into the EC; at the same time this commitment gains us better access to the commercial vehicle markets in Eastern Europe, which are growing especially dynamically.

Facing up to our responsibility as a market leader, we will make an active

contribution in improving the overall ecological impact of goods transportation, through further progress in reducing exhaust gas and noise emissions and by further enhancing vehicle safety. The commercial vehicle strategy of Mercedes-Benz with regard to the environment will focus not just on further improvements to innovative vehicle technology, but also on optimizing the commercial vehicle's transport chain. This means improving the complex procedure of transportation on a European scale, taking both economic and ecological factors into account, with the use of combined transportation systems where suitable.

"Welcome to Mercedes-Benz": the message which the new retail branch in Mainz also conveys to customers



Advanced environmental technology in short-radius goods transport through use of the Mercedes-Benz particulate trap

In Millions of DM	1989	1988
Sales	12,244	11,484
Incoming orders	13,893	11,883
Investments in fixed assets	720	651
R+D expense	787	730
Employees	77,722	78,117

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#### Further Growth in Sales and Incoming Orders

During the year under review the German electrical industry profited from the good economic climate in the domestic market and, once again, from lively demand abroad. Business in the fields of industrial engineering, automation and power systems was particularly encouraging. The trend in data processing and communication systems, on the other hand, was unsatisfactory. The upturn in the consumer goods sector continued.

In 1989, AEG increased consolidated sales by 7 % to DM 12.2 billion. While domestic sales rose by 3 % (DM 6.6 billion) compared with the previous year, the volume of business abroad increased considerably, by 11% to DM 5.6 billion. This was due in particular to growth on the part of the European companies. Reflecting this trend, our foreign business share of total consolidated sales increased further to 46% (1988: 44%).

Incoming orders also rose significantly, by 17% to DM 13.9 billion. While domestic orders went up in keeping with the increase for the industry as a whole (+ 8%), orders from abroad rose by 28% to DM 6.7 billion. This rise can be largely attributed to the Automation Systems and Transportation Systems Fields of Activity.

At year-end, the AEG group had 77,722 employees worldwide, 58,492 in the Federal Republic of Germany and 19,230 abroad.

For reasons of better comparability, all figures quoted here take into account the fact that AEG's aerospace and defense systems activities, involving about 11,000 employees and sales of DM 2.0 billion (1988), were hived off and transferred to Deutsche Aerospace AG in the middle of the year with effect from January 1, 1989. A further 421 employees, belonging to the AEG research institutes in Ulm, Berlin and Frankfurt am Main, which were transferred to Daimler-Benz AG on June 30, 1989, have also been excluded. The research performed by these institutes and by other facilities within the Daimler-Benz group continues to be at AEG's disposal.

Following this restructuring, AEG now comprises the Fields of Activity of Automation Systems, Office and Communication Systems, Electrotechnical Systems and Components, Consumer Products, Microelectronics and Transportation Systems.

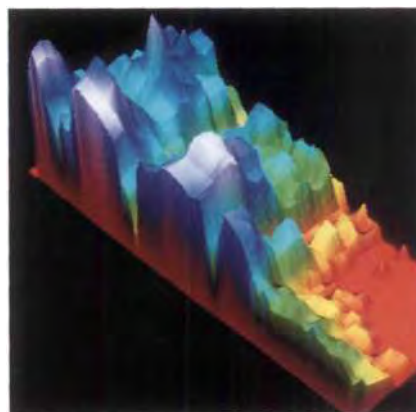
#### Additions to Fixed Assets on a High Level

In 1989 AEG invested DM 835 million (1988: DM 1,668 million) in fixed and intangible assets and in equity of affiliates. While expenditure on holdings was considerably lower, investment in other fixed assets totaled DM 720 million (1988: 651). Main areas of emphasis in the Federal Republic of Germany included extending the domestic appliances factory in Rothenburg ob der Tauber, modernizing and expanding the IC manufacturing facility in Heilbronn, structural improvements in the sector of high-voltage systems in Kassel, and enlarging the sector of new power semiconductors in Belecke and that of series production for multi-functional display systems in Ulm. Abroad, we invested considerable sums in the companies MODICON and MODCOMP.

In the year under review AEG spent DM 787 million on research and development; this amounted to 6.4 % of sales. In the initial-development sectors for new products and processes alone, more than 4,600 employees are working on about 400 key projects.

#### Increased Activity in Research and Development

AEG is involved in over 50 national and international joint research projects. The international nature of AEG's research activities becomes especially apparent from the group's participation in several EUREKA projects, such as the microelectronics program JESSI, and in European Community research projects like ESPRIT and RACE.



Graphic representation of voice signal analysis of a quote from Hamlet



## Automation Systems

	1989	1988
Sales (millions of DM)	2,311	2,051
Foreign share in %	41	36
Employees	13,445	12,901

This Field of Activity comprises the divisions Industrial Systems, Automation Systems and Products, and the systems and software house GEI — Gesellschaft für Elektronische Informationsverarbeitung mbH, Aachen. The volume of business in these divisions was further increased in 1989. The Geomatics automation system, first presented to the public two years ago, has established

itself in the international market. It proved its efficiency in a large variety of production applications, especially in the automotive industry, the iron and steel industry, in chemical engineering, in environmental protection and in power supply networks. Prominent examples of automation projects for factories included technologically sophisticated painting systems in the automotive industry. About 100 Modicon automation machines ensure constant paintwork quality in each case. The range of products for process automation in chemical engineering and environmental protection was considerably expanded. An order for extensive control systems for the automation of power supply networks was also won.

We have expanded our activities in the field of tunnel equipment. The 945 m tunnel under the Ems near Leer in Ostfriesland/Germany, for example, entered service on schedule. AEG was the main contractor for the planning and for the highly advanced lighting, communication and traffic control equipment used in this tunnel.

In order to expand AEG's automation business in the USA we acquired parts of the Westinghouse Electric Corporation, Pittsburgh, at the end of 1989. The divisions involved are Drive Control Systems in Pittsburgh, Westinghouse Factory Automation Systems in Oakdale, Pennsylvania, and a majority holding in Micron Inc., in Troy, Michigan. These companies are engaged in the fields of automation technology and basic materials.

Automation products and systems, such as MODICON's stored-program control units, are key components of the Geomatics system. The 32-bit multi-processor technology of the family Modicon 32,000 M, which was introduced at the INTERKAMA fair, will extend the application range of MODICON systems up to the production control level. A new operating system has been developed jointly with Intel.

With MODCOMP's new MC 97 Tri-Dimensional computer, AEG is presenting a particularly efficient UNIX realtime computer for process control tasks in which high speed is essential. These computers handle highly complex communication and automation work.

GEI increased its volume of business as compared with the previous year. Activities were extended in the areas of CASE (Computer Aided Software Engineering) as well as CAD (Computer Aided Design) and CAE (Computer Aided Engineering) tools. In cooperation with a number of European partners engaged in the project ESF (EUREKA Software Factory), CASE products were standardized and further improved.



Supplied by AEG: the central operating and control unit for monitoring and regulating traffic flow in the Ems Tunnel



The OIS-M remote object identification system being used in the automotive industry

**Office and Communication Systems**

	1989	1988
Sales (millions of DM)	1,417	1,406
Foreign share in %	56	55
Employees	9,835	10,192

**Office and Communication Systems**

	1989	1988
Sales (millions of DM)	1,417	1,406
Foreign share in %	56	
Employees	9,835	10,192

This Field of Activity comprises AEG Olympia Office GmbH in Wilhelmshaven, AEG Electrocom GmbH in Konstanz, and TELEFUNKEN Sendertechnik GmbH in Berlin.

Trends in this industry, both in Europe and the USA, were less favorable than expected in 1989, and the market was characterized by very fierce competition. A significant revival of demand is not to be expected in the near future. Growth in the software and service sectors, however, compensated for declining sales on the hardware side.

The scope of operation of AEG Olympia Office GmbH includes stationary and mobile office workstations, terminals for public and private networks, mobile office systems and radio communication systems. These areas are covered by the newly formed product divisions Office Systems, Office Equipment, Mobile Office and Communication Systems.

Sales of AEG Olympia Office GmbH rose in 1989 due to encouraging growth on the part of the foreign subsidiaries. An impressive increase was achieved by the promising Office Systems division with its new, comprehensive product range of personal computers, printers and software of various sizes and capabilities. In the Office Equipment division, by contrast, demand for electronic typewriters declined. With regard to the Mobile Office division, AEG's car telephones make the company one of the leading manufacturers in the Federal

Republic of Germany. In the Communication Systems division, we have further improved our position in the European export countries. The employment situation in the hardware sector was affected by a changeover in the product range to products manufactured by other companies. Short-time working and personnel adjustments were not to be avoided.

Innovative Burotechnik (IBT) was founded as a subsidiary of AEG Olympia Office. It will be developing new approaches to the marketing of new product ideas for AEG Olympia Office.

AEG Electrocom GmbH (AEC) is primarily active in the sector of recognition

and sorting systems, especially letter sorting. Incoming orders well above the average prove that AEG technology has established itself in the market. AEC's joint venture partner in the USA, ElectroCom Automation Inc., has won a DM 1 billion order from the U.S. postal service.

TELEFUNKEN Sendertechnik registered a fall in domestic demand during the year under review; this is because the Federal German post office as well as all German TV companies have postponed their investment programs by a number of years. The export markets were characterized by continued lively demand but hard competition.

AEG letter distribution systems are used all over the world, as here at the main post office of Phoenix, USA



Mobile Executive Office — an integrated combination of telephone, PC and telefax



**Electrotechnical Systems and Components**

	1989	1988
Sales (millions of DM)	4,112	3,758
Foreign share in %	42	40
Employees	22,133	22,304

In this Field of Activity, total sales and incoming orders for the divisions — Power Transmission and Distribution, Components, AEG KANIS and AEG KABEL — increased. The rise in orders from abroad was over-proportionate.

In the sector of Power Transmission and Distribution major orders were placed, both from Germany and abroad, for fully insulated high-voltage switchgear. Three follow-up orders for the supply, installation and commissioning of 380/110 kV high-voltage switchgear. Development of the first models in a new line of high-voltage switchgear was completed successfully.

In the Components division, new products made an encouraging growth in business possible. In order to strengthen our presence in the U.S. market we built a production facility for photo-receptor drums in Cincinnati, Ohio; production start-up is planned for the third quarter of 1990. Since January 1990, our power semiconductor business has been carried on by EUPEC, a joint enterprise with Siemens. We expect this company to become one of Europe's leaders in this field.

AEG KANIS has joined European Gasturbine N.V. In order to effect this our gas turbine business has been transferred to our newly founded subsidiary KANIS Energie GmbH, in which European Gasturbine N.V., Amsterdam, has a majority stake.

AEG KABEL again registered encouraging growth; this was helped by the rise in prices for non-ferrous metals. Significant stimuli were provided by the European export markets. With the acquisition of Lackdraht Union GmbH, AEG KABEL has improved its market position in the specialized field of winding wire.



Computer-aided process control unit for a wire painting system

**Consumer Products**

	1989	1988
Sales (millions of DM)	2,628	2,430
Foreign share in %	50	48
Employees	11,945	11,717

In this Field of Activity, which comprises the divisions Domestic Appliances and AEG Power Tools sales in the year under review increased considerably.

While domestic demand for domestic appliances was below that for the previous year, the rise in export sales continued unbroken. High growth rates were achieved in Spain, the Netherlands and the Scandinavian countries. Trends in our washing machine business were especially gratifying; with the Oko-Lavamat AEG attained a leading position among specialist dealers. The new generation of cooking appliances, Competence, which is manufactured at our plant in Rothenburg ob der Tauber, has given its market debut at the beginning of 1990.

In the AEG Power Tools division, too, sales increased and the position abroad was consolidated.



Competence, the new generation of kitchen stoves

**Microelectronics**

	1989	1988
Sales (millions of DM)	1,151	1,074
Foreign share in %	43	43
Employees	11,768	10,710

In 1989 the parts of the AEG group active in the microelectronics sector were concentrated in a single Field of Activity. This includes TELEFUNKEN electronic GmbH, the Opto- and Vacuum Electronics division and F.H.P. Motors. This Field of Activity focuses its operations on producing integrated circuits for specific applications, subassemblies and other electronic components for the motor vehicle industry, for communications technology, for industrial, defense and space technology and for consumer electronics. In order to broaden our technological basis, and following the acquisition of a holding in Siliconix and a licence agreement with the major micro-processor manufacturer Intel Corp., both of Santa Clara, California, we have now concluded an initial agreement on a joint venture with Matra MHS, Nantes, France.

In the year under review, strong growth was achieved, a major contribution to this being made by TELEFUNKEN electronic GmbH (TEG). Due to the continued upturn in the automotive industry, stimuli came above all from sales of subassemblies and the integrated circuits needed to equip them. The considerable growth in sales made it necessary to build a second subassemblies plant in Manila, Philippines. In Hungary, TEG has founded a joint venture named REMITEL GmbH; in cooperation with three Hungarian partners, this is to manufacture

motor vehicle ignition modules for the countries of Eastern Europe and for India.

Business in the Opto- and Vacuum Electronics division was affected by the postponement of a number of major orders, especially in the fields of satellite-based traveling wave tubes and infrared components. Despite this, incoming orders were on a high level in 1989. We recorded growth in our small motors business. Motors for ABS and seat adjustment were added to the existing range.



Multilayer-type foil switches with printed condensers



Fully automatic glass passivation with clean-room robots



Multi-element infrared detector for use in thermal imagers

### Transportation Systems

	1989	1988
Sales (millions of DM)	587	462
Foreign share in %	59	34
Employees	3,067	2,948

### Transportation Systems

	1989
Sales (millions of DM)	587
Foreign share 11v%_____	59
Employees	3,067

This Field of Activity is made up of the divisions AEG Westinghouse Transport-Systeme GmbH, Berlin, AEG Westinghouse Transportation Systems, Inc., Pittsburgh, and Magnetbahn GmbH, Starnberg. The first year of trading for AEG Westinghouse under AEG's control was devoted largely to integrating the various component parts to form an efficient unit. Due to the high demand from abroad, sales topped the previous year's mark.

The railroad systems business in the Federal Republic of Germany continues to be determined by orders from Deutsche Bundesbahn, the German Federal Railroad company. For the 41 ICE high-speed trains ordered in total, AEG Westinghouse is supplying assemblies for the power driving units and is the main contractor for the electrical equipment in the 492 intermediate trailer cars. Together with locomotive and railcar manufacturers in the German Democratic Republic, we built 12 diesel-electric motor coaches for the Greek national railroad company; these were awarded a gold medal at the 1989 Leipzig Trade Fair.

The Berlin transportation authorities (BVG) ordered 30 new suburban multiple train sets for the subway system, equipped with low-maintenance three-phase technology; 41 standard trains for Berlin's new S-Bahn (local rail network) are currently being built. As the main contractor in a German consortium, we were awarded an order for setting up a metro system for the metropolis of Shanghai. In the first phase of this project, the order volume of AEG Westinghouse amounts to DM 280 million. Further orders have been received for equipment items from the Viennese subway system and from Washington's metro, and for 30 new suburban train waggons from Stockholm's local transport authority.

In Berlin the M-Bahn was issued a permit for fully automatic passenger transport after approval by the technical supervisory authority. Trial operation with passengers has begun. The Frankfurt Airport authority decided in favor of the innovative M-Bahn when selecting a fully automatic passenger transfer system. Again we continued to be successful with our People Movers, which are already in operation in a number of networks in the USA and in other countries. AEG Westinghouse is to equip John F. Kennedy Airport in New York with a complete, automatic passenger transportation system. AEG Westinghouse is also participating in the expansion of Miami's People Mover system, and will be supplying new vehicles and stationary equipment.



Easily integrated transport systems already exist: the Area Personal Transit System in Las Colinas, Texas, USA

### **Preparing for the Single European Market and the Opening Up of Eastern Europe**

AEG is preparing for the single European market with a number of joint ventures and acquisitions. To this end, in 1989 we put the various technical sales organizations in the Federal Republic of Germany, the GDR and the rest of Western Europe under a central management body designated "Technical Sales Organization Europe". Due to close cooperation between all the Technical Sales Offices and European subsidiaries in the respective countries, AEG can offer the customer the same standard and range of services not only for local projects, but also for those of a supra-regional nature.

In the GDR, we concluded a basic agreement with the collective VEB Lokomotivbau Elektrotechnische Werke "Hans Beimler" in the sector of transportation systems, and concrete agreements with six other collectives, in 1989. Further potential for cooperation is being explored.

In Eastern Europe, AEG has adapted its policy to the changing political and economic conditions. In addition to the joint venture of TELEFUNKEN electronic GmbH (TEG) concerning motor vehicle ignition modules, further cooperative projects were also agreed upon in the sectors of power semiconductors and three-phase propulsion technology in Hungary. In Poland, preparations for the founding of a retail branch of our own were concluded. A general agreement for cooperation in the domestic appliances sector was signed with Bulgaria.

### **Outlook**

AEG will continue on a course of growth. Particularly in the Fields of Activity of Automation Systems, Micro-electronics and Transportation Systems we are expecting a considerable increase in the volume of business. For 1990 AEG is expecting higher growth rates abroad than in Germany, due especially to the expansion of business in North America. Incoming orders are expected to match the high level of 1989.

We will continue to pursue our strategy of strengthening those Fields of Activity with high growth potential.



# Deutsche Aerospace

In Millions of DM	1989	1988
Sales	7,798	7,258
Incoming orders	11,070	9,110
Investments in fixed assets	617	544
R+D expense	1,760	1,446
Employees	62,959	37,970

Deutsche Aerospace AG (DASA), founded in 1989, embraces the activities of Dornier, MTU and Telefunken Systemtechnik (TST) in the fields of aerospace, defense and propulsion systems. Before being founded on July 1, 1989, TST was a division of AEG without separate legal status. It was subsequently transferred to DASA in the restructuring of the Daimler-Benz group. After approval for the merger had been granted by the Federal Economics Minister, DASA acquired majority voting rights in Messerschmitt-Bölkow-Blohm GmbH (MBB) at the end of 1989.

With this group of companies, DASA possesses the necessary technological potential to participate successfully in international competition. At the same time, we have paved the way for a concentration of the Federal Republic of Germany's know-how in aerospace on a private-sector basis, making it attractive for international co-operative ventures.

Consolidated sales of the Deutsche Aerospace group — calculated on a comparable basis to last year — rose during the year under review by 7% to DM 7.8 billion. Orders received increased sharply by 22% to DM 11.1 billion. MBB is not included in these figures since the acquisition took place at the year-end. The consolidated financial statements of DASA and Daimler-Benz therefore do not record MBB business during the year but only its assets and capital as at the date of the balance sheet. At the end of 1989, the DASA group employed a total of

62,959 people; this figure for the first time includes 24,194 employees of MBB. In early 1990, the Board of Management of Deutsche Aerospace AG adopted a new management structure. In keeping with their market tasks the divisions Aviation, Space, Defense and Propulsion Systems were founded and organized by product sectors; at the same time, many other activities were combined. In doing this we aim to insure that the companies of the DASA group are able to operate in close proximity to the markets and be responsible for their own results. For the 1989 financial year, we report once again in detail on the group companies Dornier, MTU and TST. A brief summary is given of the operating results of MBB.

## Dornier

	1989	1988
Sales (millions of DM)	2,204	1,920
Foreign share in %	57	55
Employees	10,247	9,786

### Sharp Increase in Sales

Sales of the Dornier group increased in 1989 by 15% to DM 2.2 billion, 57% of which was accounted for by exports. The mainstay of business as before was the aviation sector, which amongst other things produces the Dornier 228 aircraft and supplies assemblies for the Airbus program. In the space sector, sales



Dornier DO 328 regional passenger aircraft

generated by the European Earth Remote Sensing Satellite ERS-1 increased substantially, chiefly due to invoicing factors. Growth in the defense field was mainly attributable to the CL 289 reconnaissance drone system, for which the first deliveries were invoiced. In the medical sector however, sales did not attain the high level of the previous year.

Incoming orders drastically increased from DM 2.5 billion to DM 4.7 billion, for the most part due to major long-term projects. These include development of the JF 90/EFA fighter plane, the STINGER program and development of the Dornier 328 commuter aircraft.

Research and development expenditure rose in 1989 from DM 653 to DM 925 billion. As in 1988, most of this work was commissioned by third parties. A total of DM 210 million (127 million in 1988) was spent on the company's own projects. Capital expenditure was 23% up on 1988 at DM 201 million and was devoted to enlarging capacity for production and research and development. At the end of the year, Dornier had 10,247 employees ( 1988: 9,786).

**Aviation**

During 1989, 17 Dornier 228 aircraft were supplied to customers (1988: 20). World-wide, 164 of these aircraft are now in operation in regional air services. They are also increasingly being used, with appropriate special equipment, for research purposes and environmental monitoring. Within the framework of German-Indian collaboration in production of up to 150 Dornier 228's under license, our Indian partner took delivery of further assemblies and built them up. We again produced various assemblies for Deutsche Airbus GmbH, chiefly for the A 320. Our development work for the A 330/A 340 series continued according to schedule.

Firm orders have already been placed for the Dornier 328 30-seater turboprop aircraft, on whose development we continued to work intensively. The maiden flight is planned for 1991 and in 1993, the first aircraft are expected to go into service. Dornier, in close co-operation with MBB, has carried out comprehensive development work for the JF 90/EFA European fighter project, in which the Federal Republic of Germany, the United Kingdom, Italy and Spain have been assigned specific shares.

In the area of aircraft servicing, the Federal Armed Forces are a major client. Their orders include the Breguet 1150 Atlantic, Alpha Jet, Dornier 128 and 228 and the Bell UH-1D helicopter. Dornier



Manufacturing of Lithotripters in the Dornier medical technical department

The Dornier EVA space suit for extravehicular activity by Hermes astronauts



The Dornier CL 289, a drone system for general and target reconnaissance



Luftfahrt GmbH, Oberpfaffenhofen, is also principal contractor for servicing the E-3A airborne warning and control system (AWACS); furthermore the executive aircraft models Cessna, Falcon and Challenger are serviced and maintained.

### Space

In the space technology sector, Dornier is a leading partner in major European space exploration projects. Once again, the largest earner was the ERS-1 European Remote Sensing Satellite, a part of which was invoiced during the year at DM 307 million. The satellite, for whose development Dornier is project manager, is due to be launched in 1990.

Further substantial parts of the COLUMBUS and the Hermes projects were invoiced. Dornier is chief contractor for the resource module of the COLUMBUS orbiting space laboratory. Dornier's portion of the European Hermes orbital glider program includes the environmental control and life support system, the fuel cells and the space suit for maneuvers by the astronauts outside the spaceship.

In 1989, the AMF reflector oven was completed and delivered. This is one of the experimental scientific systems in which Dornier is participating in the framework of the ESA research program.

The first four flight modules of the satellite carrier structures commissioned by a US company for the Titan 3 rocket were supplied to the customer.

### Defense

Unmanned reconnaissance and orientation flight artefacts were the main focus of work in the defense sector. The first CL 289 reconnaissance drones jointly developed with Canadian and French partners were supplied in 1989. In an agreement with the Federal Defense Technology and Procurement Office we became principal contractor for production of the "Fliegerfaust 2", the European version of the STINGER. Besides the Federal Republic of Germany, Turkey, Greece and the Netherlands are working on the project, which represents DM 1.9 billion in orders and will take ten years to complete. In the field of mobile ground systems, Dornier has for a number of years been further developing and manufacturing workshop equipment for the ROLAND air defense system. For the TORNADO, supplementary electronic support systems have been developed and built.

### Medical Systems

In 1989, 66 kidney and biliary lithotripters for the painless, anaesthetic-free disintegration of kidneystones and gallstones were supplied (1988: 93). These comprised chiefly the MFL 5000 multi-functional systems which were successfully introduced on the market in 1988. The multi-functional MPL 9000 system was licensed in Japan at the end of the financial year. A further delay is expected however before the system is licensed in another important market, the USA. In 1989, the COMPACT lithotripter, which is also suitable for use in smaller clinics, joined the product range.

The rising number of systems installed has led us to employ additional maintenance and service personnel.

### Outlook

The Dornier group expects a further increase in business in all areas for the current financial year.

In the aviation sector, development work on the Dornier 328, the airbus program and the JF 90/EFA project is proceeding according to schedule. Of the Dornier 228 aircraft more and more special versions are being delivered. The space sector expects to invoice large sums, particularly with respect to the major projects ERS-1 and ROSAT. In the defense sector, there will be a further increase in sales due to deliveries of the CL 289 drone system. We expect the licensing of the new systems in the USA to result in a sharp increase in the sale of medical systems.

## Motoren- und Turbinen-Union

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	1989	1988
Sales (millions of DM)	3,659	3,276
Foreign share in %	66	61
Employees	17,654	17,267

### Growth Continues

Sales of the MTU group, which operates in the field of propulsion systems increased once again in 1989, to DM 3.7 billion, a rise of 12%. Aero-engines, the principal line of activity, were the main contributor to this gratifying performance. The larger part of sales was once again generated by exports, which accounted for 66% (1988: 61%) of business. Incoming orders, at DM 4 billion, were 17% down on the 1988 level, but that year's figures contained an exceptional rise due to the long-term development order for the EJ 200 engine of the JF 90/EFA fighter. Leaving this order aside, incoming orders rose by more than 30%, chiefly due to the positive performance of the civilian aero-engine sector. As a result, the MTU group had orders worth DM 6.4 billion (1988: 6.1 billion) on its books at the end of 1989. We spent DM 469 million (445 million in 1988) on research and development activities. Almost half of this concerned external development orders. Capital expenditure of DM 264 million (217 million in 1988) went towards modernizing production facilities and adapting technical facilities and processes to the planned changes in production structure. At the end of the year, MTU employed 17,654 people (1988: 17,267).

### Aero-Engines

Business of MTU Munchen, which operates in the aero-engine sector, rose once again. The mainstay of growth was civilian aero-engines. In both the civilian and the military sectors, we collaborated successfully, as we have for many years now, with leading engine manufacturers in the development and production of gas turbine aero-engines. The orders now on our books would be sufficient to guarantee employment through to the year 1991.

Continued growth in civilian air traffic and the need of the airlines to replace large parts of their fleets due to ageing, had positive consequences for incoming orders in the year under review. Our product development activities for civil-

ian applications are concentrated on the PW 2037/2040 and V 2500 civilian aero-engine projects and the PW 300 executive aircraft engine. MTU is a partner of Pratt & Whitney and other leading manufacturers. On the basis of military orders, MTU is working on development of the EJ 200 engine for the JF 90/EFA and the MTR 390 engine for the German-French PAH2 anti-tank helicopter.

### Diesel Engines

For MTU Friedrichshafen, which builds propulsion systems based on high-speed diesel engines with output ratings between 30 and 7,400 kW for ships, energy generation and rail-bound and heavy-duty vehicles, 1989 was again a satisfactory year. As in previous years, ship propulsion systems formed the mainstay of activities. The 396-series engines for tractors and earth-moving equipment supplied under a contract with the USSR concluded in 1986 made a major contribution to sales and employment. Production capacity was well utilized in 1989.

Expenditure on research and development was once again high. We aim to adapt the current engine range to the stricter demands on the environmental front and also to prepare new products.



The EJ 200 engine for the JF 90/EFA fighter aircraft

By stepping up our holding in French engine manufacturer S.E.MT.-Pielstick to 33.5% we have moved further towards a better coverage of the French market and other sales regions reached via France.

**Maintenance of Aero-Engines**

Helped by continued growth in civilian air traffic, MTU Maintenance, which specializes in the maintenance and repair of large engines and engine components, expanded sales substantially. In order to meet the growth in demand, the company enlarged its premises and workforce at Langenhagen near Hanover. With the aim of further strengthening its market position, servicing of civilian aircraft engines has been extended to

include new models. MTU Maintenance is the only maintenance firm in Europe servicing the newly developed aero-engine V 2500.

**Turbochargers, Fans/Compressors, Steam Turbines**

Kuhnle, Kopp & Kausch of Frankenthal was not quite able to repeat the high level of sales of 1988, which resulted from the invoicing of large orders for fans/compressors and steam turbines. Incoming orders on the other hand increased slightly. Due to a rise throughout Europe in production of turbocharged diesel engines for cars and commercial vehicles, output of exhaust gas turbochargers increased by 15% to 550,000.

**L Orange and Other MTU Companies**

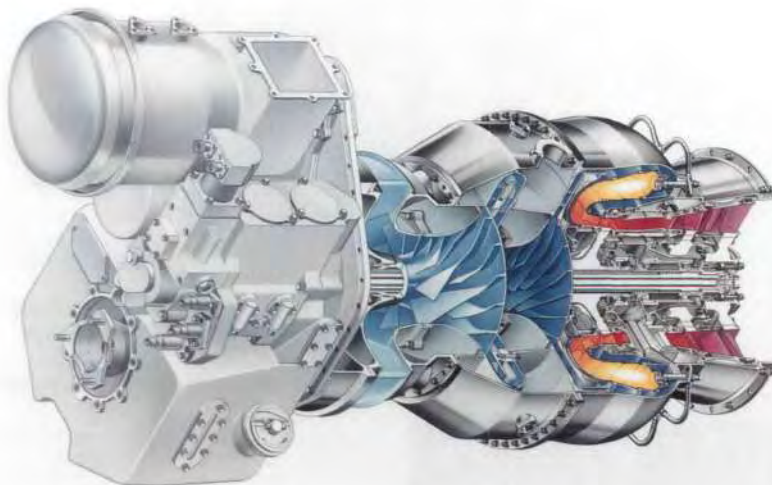
L'Orange GmbH of Stuttgart, manufacturer of high-quality injection systems for large diesel engines, concluded a highly successful financial year in 1989. Due to an increase in orders, particularly in the field of ship engines, production capacity will again be more or less fully utilized in 1990.

The performance of the other companies of the MTU group, both German and foreign, for the most part selling and servicing MTU products and supplying data processing services, was generally satisfactory.

**Outlook**

MTU München expects a further increase in business given the probability of substantial growth in the civilian aero-engine market. MTU Friedrichshafen will be increasing its efforts to gain a footing in less accessible markets. Collaboration with newly industrializing countries which are seeking to take part in diesel engine production jointly with experienced manufacturers presents further opportunities.

For 1990, the MTU group expects a further increase in sales revenue and full capacity utilization.



Cut-away diagram of the MTR 390 engine for the PAH 2 anti-tank helicopter

The efficient V 2500 airliner engine

## Telefunken Systemtechnik

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	1989	1988
Sales (millions of DM)	1,961	2,092
Foreign share in %	19	21
Employees	10,779	10,917

### Full Order Books

Sales of Telefunken Systemtechnik in 1989 were 6% down on the previous year at DM 2.0 billion as a result of invoicing factors. The principal earners were the fields of radar systems, radio communication and components for the new generation of Federal Armed Forces of Germany radio telephones. Due to the exceptional rise in incoming orders from DM 1.8 to DM 2.4 billion, the value of orders on hand rose to DM 3.5 billion (DM 3.1 billion in 1988).

Telefunken Systemtechnik spent DM 366 million on research and development (DM 348 million in 1988). Capital expenditure amounted to DM 147 million, 10% below the previous year's level. This comprised building, modernization and rationalization measures commenced in 1987. The number of employees fell slightly to 10,779 (1988: 10,917).

### Receivers and Direction Finders, Marine Systems

In addition to further large-scale orders for the HF/VHF ELoKa electronic warfare reconnaissance system for the armed forces, Telefunken Systemtechnik received the order for the development of an ELoKa system for use on ships. Our long-running attempts to secure a contract to supply the government of Thailand with a mobile radio reconnaissance and surveillance system were successfully concluded. The last of a total of three service vessels was delivered to the German Navy, for which we developed the reconnaissance and control system.

In the marine systems division we also largely concluded the DM 2A3 Torpedo development order, thus paving the way for subsequent orders. In compliance with the condition imposed by the Federal Economics Minister when he granted approval for the acquisition of a majority interest in MBB, namely sale of the Marine Systems division, we transferred all activities in this division at the beginning of 1990 to DMT Marinetechnik GmbH, Hamburg.

### Radar Systems

In 1989, three TRM-S radar systems, the first three-dimensional radar systems, with phase-controlled antenna, were sup-



Alternative power generation using natural forces (wind/solar energy)



Mobile radar system



plied to the Federal Armed Forces. A further seven two-dimensional TRM-L radar systems for the ROLAND fire-direction command station were supplied to the Federal Air Force of Germany; they serve to protect military airfields. Preparations are currently underway for the start of licensed production of the APG-65 on-board radar for which the order was received in 1989.

#### Technical and Logistic Services

Sales of this sector in 1989 were generated chiefly by the overhaul and repair program for the HAWK air defense system, conversion and modification of the APQ 99 on-board radar for the PHANTOM and workshop equipment program for the army, e.g. three-dimensional radar systems for air surveillance. The repair plant in Kiel is now completed and occupied.

#### Command and Control Systems, Guidance Systems

Parts of a project concerning air defense systems of the future were completed in 1989. We also for the first time offered equipment and systems for civilian applications to users. The German Federal Railways placed an order for management servicing of their transport system; companies in industry placed orders for specific workplace computers for the production sector.

#### Aviation and Special Systems

We developed for the first time technology for turret and weapon drive systems in which hydraulic operation is replaced by electric control; from Norway we received the first order to equip tanks with this technology. Work continued on a major project for runway lighting systems for the new Munich 2 airport, currently under construction.

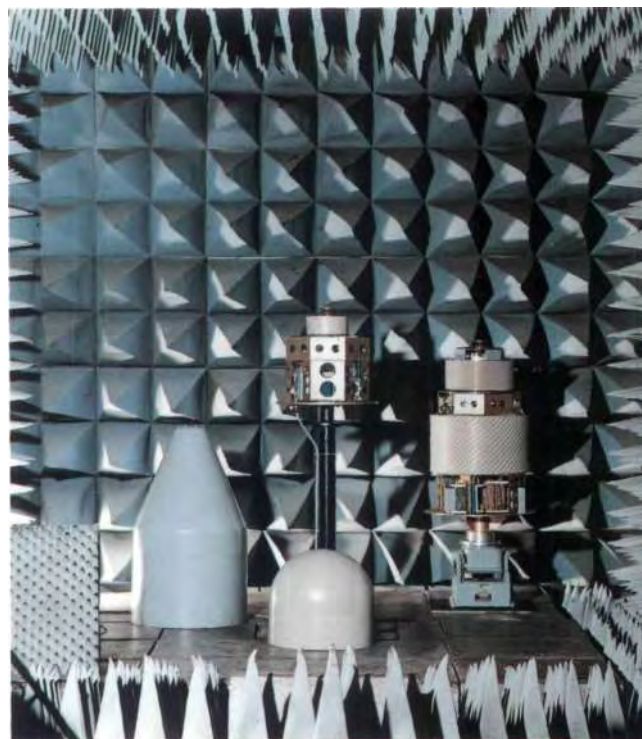
#### New Technologies and Space

TST further expanded its position in the field of space. The power supply subsystem for the German telecommunications satellite DFS-KOPERNIKUS and the pre-integrated solar cells were supplied. In the space sector, orders for the

COLUMBUS and Hermes projects have been postponed until 1991 and later. In the new technologies sector, solar and wind technology projects sponsored by public-sector clients provided new stimuli.

#### Outlook

Given its broad spectrum of know-how and wide-ranging experience in diverse fields of high technology, TST has a solid basis on which to successfully face the challenges arising from the shift in demand. Our membership of DASA and the Daimler-Benz group, with its comprehensive range of technically sophisticated products and services, opens up further application possibilities which we shall use for our business.



Function-testing electronic components

## Messerschmitt-Bolkow-Blohm

	1989	1988
Sales (millions of DM)	6,271	7,120
Foreign share in %	37	34
Employees	24,194	39,886

### Incoming Orders Gratifying

In the context of the restructuring of the German aerospace industry, Messerschmitt-Bolkow-Blohm GmbH (MBB) adopted a new structure on July 1, 1989. The Transport and Civilian Aircraft division of the company was transferred to Deutsche Airbus GmbH, which features in the group reports as an associated company. Excluding sales of this division as of the date of transfer, MBB

generated sales of DM 6.3 billion. Business increased particularly in the defense and space sectors. Incoming orders rose in spite of the transfer of the Transport and Civilian Aircraft division, to DM 8.4 billion.

Research and development expenditure increased in 1989 from DM 1.9 billion to DM 2.3 billion, including independently generated funds of DM 206 million (DM 243 million in 1988). As a result of the new structure, investment fell from DM 406 million to DM 386 million. MBB had 24,194 employees at year-end.

### Helicopters and Aircraft

The activities of the Helicopters and Aircraft group comprise development, production, marketing, servicing and maintenance of civilian and military helicopters and military high-performance jets including the relevant system peripherals. Aircraft components are developed and produced for Deutsche Airbus GmbH.

Development in the helicopter sector is focused on the German/French anti-tank helicopter PAH 2. The completion of the first prototype is scheduled for April 1991, the first helicopter is expected to be delivered in 1997. In the aircraft sector, the TORNADO is the main sales generator. Development of the JF 90/EFA European fighter plane proceeded according to schedule.

### Space

The Space group comprises the fields carriers and orbital systems of ERNO GmbH, Bremen and the communication and propulsion systems sector in Otto-brunn. In 1989, ten communication satellites and two scientific satellites in which MBB had a major involvement were successfully launched into orbit. The ARIANE IV European launcher carried out eight missions and was for the first time used in its most powerful version with four liquid-fuel booster rockets.

### Defense Technology

The activities of MBB in the defense sector comprise the development and production of guided missiles used in anti-tank systems and air, sea and ground target attack as well as dispensers, submunition systems and



The Airbus family  
(from top to bottom:  
A-300, A-310, A-320)



weapon systems components and logistic equipment. In the marine and special systems sector, drones and aviation subsystems, minesweepers, simulators and flight path measuring systems are developed and built. Research and pre-development centres on intelligent systems, microelectronics, digital image processing, high-energy lasers and beam-wave guides for flight control and guidance.

**Energy and Industrial Systems**

The broadly diversified sector of energy and industrial systems is divided into the product sectors energy and environment, control and data technology, production and automation technology,

materials processing and medical technology. Here the matured know-how of MBB in the new technologies and materials required in the aviation and space field is used systematically in civilian applications. Examples are wind and biogas plants for energy generation, high-strength plastic parts for use in the construction of plant, machines and vehicles and laser technology for use in the medical field.

**Transport and Civilian Aircraft**

The Transport and Civilian Aircraft division which was transferred to Deutsche Airbus GmbH at the end of 1989 develops and produces high-performance and technically advanced civilian

aircraft in cooperation with international partners. The mainstay of operations is the manufacture of assemblies for the Airbus program. In the Aircraft Service Center in Lemwerder, civilian and military transport aircraft are serviced.

Deutsche Airbus GmbH has a 37.9% holding in the international Airbus industrial consortium. The Airbus has benefited to an above-average degree from the growth in the civilian aircraft market; these aircraft now have a market share of almost 20%. Given the sharp rise in demand too for the FOKKER 100, in whose production Deutsche Airbus GmbH plays a major part, we expect a considerable increase in output over the coming years.



ARIANE launcher system on its way into space



The "Sänger" space-plane project



EUROCOPTER PAH-2/HAC Franco-German anti-tank helicopter of the next generation; a joint development by MBB and Aérospatiale



The "Tornado" multi-role combat aircraft (MRCA)

# Research and Technology

## Coordinated Research and Technology Management

In 1989, the research activities of AEG were transferred to Daimler-Benz AG's central division for "Research and Technology", objectives and activities were newly defined and new managerial structures developed. In the medium-term research program drawn up in the year under review, particular priority was given to the transfer of knowledge between group research and the individual corporate units, so as to derive maximum benefit from concentrating research under central management within the holding company.

Within the framework of the synergy program TRAFFONIC (Traffic and Electronic), all corporate units were involved

in assessing the project ideas discernible at a preliminary phase according to technological and economic criteria and in developing business and project plans.

## Restructuring of Information Processing

Those sections of the group dealing with information processing were previously organized on a decentralized basis. To boost efficiency in this area, we have created the conditions for the formation of a software house. Major parts of our information processing activities are being combined in this and transferred to Daimler-Benz InterServices (debis).

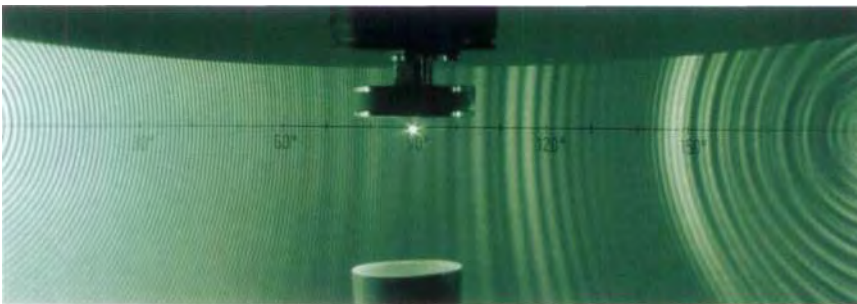
The main emphasis is on the project "Network Optimization and Regionalization

of the Computer Centers". This project is combining the communication networks of the individual group member-companies, which have so far existed as separate entities, into a single, integrated, group-wide network. In doing this we are laying the technical and commercial foundations for meeting the rapidly growing communication requirements at all levels within the group; this will both raise processing efficiency and reduce costs.

## Energy Technology of Central Importance

All the activities of the Daimler-Benz group are considerably affected by the commercial availability and degree of acceptance of energy media, by trends in the energy markets and by present and future energy technology. For this reason we have initiated a synergy program designated "Energy Systems" which will focus on the following fields:

- the regenerative energy sources of the sun and the wind (solar cells, wind-generated power)
- hydrogen technology, including the projects on high-temperature electrolysis and fuel cells for stationary and mobile applications.



"Scattered-light pattern of droplets" for research into diesel engine combustion. Basic research in cooperation with the University of Stuttgart (photo courtesy of ITLR, University of Stuttgart)



Growth shapes observed in the case of single crystals in high-temperature superconductors: part of research into anisotropic material properties



Ion implantation system for surface hardening of components

— energy storage by means of hydrogen technology and advanced batteries. Electrical energy storage systems with high energy and power densities are required especially for economically operating electrically propelled vehicles.

Now that the current situation analysis for the project is basically complete, implementation potential is now being examined.

**Traffic Information and Control Services as a Field of Innovation**

Today's demands on new traffic and communication systems no longer make national approaches a practical proposition: pan-European cooperation has become imperative.

PROMETHEUS, a joint project of the European automotive companies initiated by Daimler-Benz, was set up to investigate the technical possibilities for shaping the traffic system of the future. A major role here in the implementation of traffic control and information systems is being accorded to the new, Europe-wide mobile radio network (D-network).

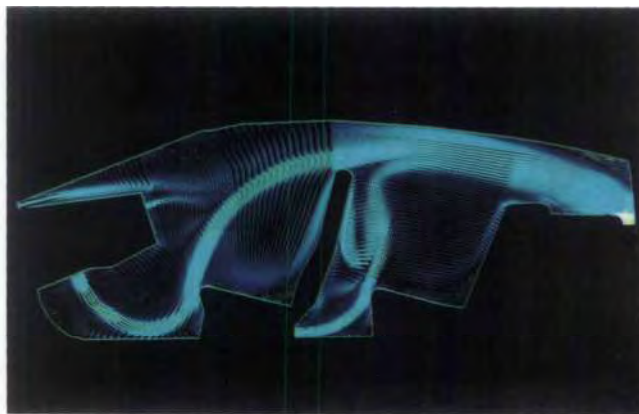
In the course of several programs within the Daimler-Benz group, especially the synergy program TRAFFONIC, the potential for this mobile radio network in the fields of safety, environmental protection and economy has been analyzed.

One of the measures designed to enhance road safety is early warning in the case of traffic jams and accidents.

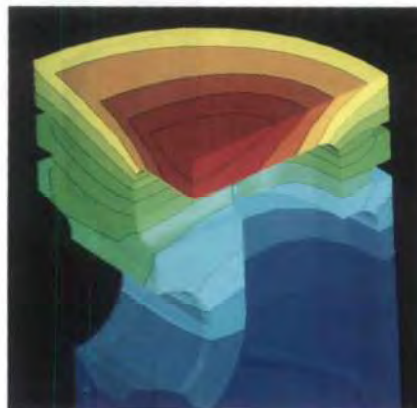
A mobile radio system will allow emergency calls to be transmitted direct from a vehicle. We have also devoted ourselves to the technical possibilities for providing the driver with a recommended speed to suit a given traffic situation.

Traffic guidance systems may also be expected to help relieve the burden on the environment. In inner-city traffic, they can considerably reduce the numbers of vehicles searching for their destinations — i.e. for a parking space. On long-distance routes, they can help drivers to detour around areas where traffic is very dense. Mobile communication above all makes it possible to improve efficiency in the transportation industry. With precise knowledge of the whereabouts of each vehicle in a fleet, routes can always be optimized in keeping with the requirements at any given time, and the number of journeys without cargo can be reduced.

Computation method for simulation of transient aerodynamic processes



Investigation of temperature distribution in a piston made of ultra-light graphite for high-performance car engines



Thermal image of a modern electronic component



**JESSI — for Future Success in Microelectronics**

Microelectronics is having a growing influence on the technical development of our products, and therefore also on competitiveness. In collaboration with other European manufacturers and users of microelectronics, Daimler-Benz is participating in the research and development program JESSI (Joint European Submicron Silicon). The aim is to produce circuitry with structures in the sub-micron range, i.e. with dimensions of considerably less than one-thousandth of a millimeter; this is required particularly for a 64-megabit chip. The program involves the technical bases for the functioning and manufacture of such structures on the one hand, and the possible

applications and design tools for such complex electronic systems on the other. We aim to secure for the group the know-how needed to design and make application-specific integrated circuits (ASIC), which we expect to become key components in future products.

**Pattern Recognition for Information Processing**

In digital data transmission we have examined possible applications and taken the development of corresponding terminals a stage further. As part of our project DIADEM (document processing with integrated sequence control), we have developed a system for transmitting and managing documents which

recognizes handwriting and symbols and identifies spoken commands. The scientific bases of voice recognition and document analysis are being investigated by the pattern recognition research team.

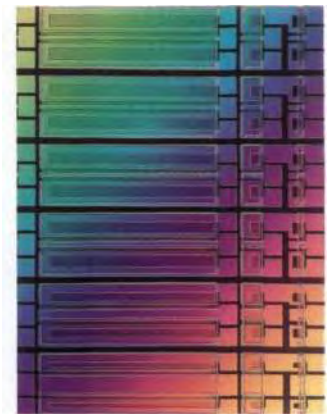
The field of radar signal processing also belongs to the pattern recognition sector. We are concerned here both with the basic communication aspects and with questions of the "knowledge-based" interpretation of information provided by communication sensors. Image analysis and scene interpretation, as well as artificial intelligence systems, are also included in radar image analysis.



Study of a Eurotunnel vehicle



The travelling wave motor: an alternative drive system to the conventional electric motor.



Integrated circuits in thin-layer poly-silicon technology on a 15 cm x 15 cm glass medium for high-quality active-matrix LCD units.

Electronic evaluation of an injection jet with diesel injection nozzles

### **New Dimensions in Chip Development**

In microelectronics engineers are succeeding in combining more and more circuitry elements on one chip. In order to overcome the physical limits of miniaturization, the first three-dimensional circuits (3D-IC) have been developed, in which transistors and other components are no longer just located adjacent to each other, but also on top of each other.

In microsystems technology, intensive efforts are being made to enlarge the functional spectrum of chips. One example of this is integrated high-frequency components which combine, on a single chip, not only the semiconductor elements for the generation of millimetric waves and the corresponding receiver elements, but also the concomitant signal processing and antenna structure. These chips can be used for low-cost miniature radar sets, e.g. as distance warning devices in vehicles.

### **Simulation and Parallel Processing**

In systems and software technology we have intensified our activities in the fields of simulation and parallel processing. This includes work on the Parallel Multi-Level Simulator, for the simulation of highly-integrated circuits; other projects focus on the design of large-scale circuits.

### **Made-to-Measure Materials due to Ion Beams**

The commissioning of the first ion implantation system in the German automotive industry represents a new departure in the surface treatment of components. Ions are accelerated in an electrical field and used to bombard the material to be processed. Here, they penetrate the upper layer and modify the surface of the material concerned in a variety of ways, depending on energy (depth of penetration), type of ion and dosage.

This system of ion implantation differs from that used in the semiconductor

industry to a considerable extent. For applications in the automotive industry it is still at the development stage.

### **Focus on the Diesel Engine**

In the further development of our diesel engines, research was concentrated on optimizing mixture formation, since both engine efficiency and emissions largely depend on the combustion process. Their quality is determined by the way the fuel/air mixture is distributed in the combustion chamber. It is also essential for the fuel jet to mix optimally with the combustion air.

### **Service Tunnel Transportation System for Eurotunnel**

At the end of 1989, we were awarded an order to equip the Eurotunnel between Great Britain and France with a new kind of transportation system. In the service tunnel, which lies between the two main tunnel tubes, an electronic track guidance system is to be installed for 24 special-purpose vehicles. It is planned to use these vehicles not only for routine maintenance but also for evacuation, ambulance and fire brigade missions.

The order also includes development of the appropriate infrastructure, with fueling stations and crane systems, as well as the equipment, assembly and commissioning by AEG of the electrical

and electronic systems. The main factor contributing to the award of the order was the high precision and reliability of the track guidance system which we had developed.

### **Ulm Research Center**

Among the main tasks of group research are the working out of short-term research prospects and the provision of sufficient know-how in key technologies for the long term. We expect the research center in Ulm, currently being set up, to make a major contribution to this. It has the job of supplying basic knowledge in the fields of information technology, production and materials research, energy transformation and technological impact research. Moreover, its range of tasks includes the development of technological strategies to assist the group in long-term target planning.

With the Radio, Radar and Communication Systems sector, research departments have already occupied the facilities built in the first phase of construction at the group research center in Ulm. The first building of the second phase of construction is to be finished by the end of 1991.



Model of the research center in Ulm currently being planned



# Employees

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## New Responsibilities Arising from the New Corporate Structure

The duties for many employees working for the corporate units have changed substantially. The restructuring placed great demands on those involved. It also provided them at the same time with opportunities not known before.

Personnel transfers and measures accompanying the structural changes numbered among the principal tasks facing the personnel departments. Moreover, in the course of our managerial staff development and planning program extending to the entire group, we initiated a policy of supporting our own young employees and permitting an exchange of personnel between all corporate units. New coordinating training courses for senior managerial staff are intended to bind the corporate units even closer together.

## Thanks to Our Workforce

We would like to express our gratitude to the employees of our entire group for their commitment and hard work in the difficult restructuring phase. Our thanks are also due to the representatives in the various labor councils and

committees and the committee representing the group's senior managerial staff. This good cooperation proved its worth, especially through last year's extensive changes.

Our special thanks are due to Herbert Lucy, who went into retirement on November 20, 1989. Until his retirement, Herbert Lucy, former Chairman of the Corporation Labor Council of Daimler-Benz AG, was for many years Chairman of the Central Labor Council of Daimler-Benz AG and Chairman of the Labor Council of the Mannheim plant, during which time he played a significant role in shaping the relationships between the company and its employees.

## New Employee Representative Bodies

As a result of the new managerial structure, a new Group Labor Council was established with representatives of the Labor Council Committees of the corporate units. The Group Labor Council concerns itself with matters relating to the entire group. Labor agreements of fundamental significance have already been resolved, for example compensatory benefits for the employees of the newly established software company and matters pertaining to managerial staff development and planning. The interests of senior managerial staff have been represented since 1989 by a committee.



The workplace of a personnel advisor is not just in the office



New forms of workstation design and organization are used in the assembly of the roadster

One of our personnel policy aims is to employ more women in the technical sector

### Employment Trend and Employee Structure

At the end of 1989, the Daimler-Benz group employed a staff of 368,226 (1988: 338,749) in all, including 298,199 (1988: 268,277) employees at the domestic plants alone. The figures in this report take into account the workforce of MBB for the first time.

Daimler-Benz AG and the subsidiaries directly under its control employed a staff of 4,326 men and women, 2,500 of whom were active at the central department for Research and Technology. At the end of the year, more than 700 employees were working in the completed sections of the new administrative building in Stuttgart-Mohringen. Con-

struction work is expected to be concluded by the end of 1990.

Mercedes-Benz AG employed a workforce of 223,219 worldwide at the end of 1989, including 173,510 within Germany. Whilst employment was well balanced overall in the passenger car sector, a high degree of utilization was achieved at the domestic commercial vehicle plants. Increased demand for personnel, especially in heavy-duty commercial vehicle production at the Worth plant, was partly compensated for by temporarily reassigning employees from other plants. Employment abroad markedly dropped at our South American commercial vehicle subsidiaries because of the difficult sales situation.

AEG employed a workforce of 77,722 (1988: 89,585) worldwide, including 58,492 (1988: 69,844) in Germany. The reduction in staff by 11,863 as compared with the previous year was principally due to the transfer of the divisions Radio and Radar Systems as well as Marine and Special Systems as Telefunken Systemtechnik GmbH to Deutsche Aerospace. In addition, the AEG research institutes were assigned to Daimler-Benz AG.

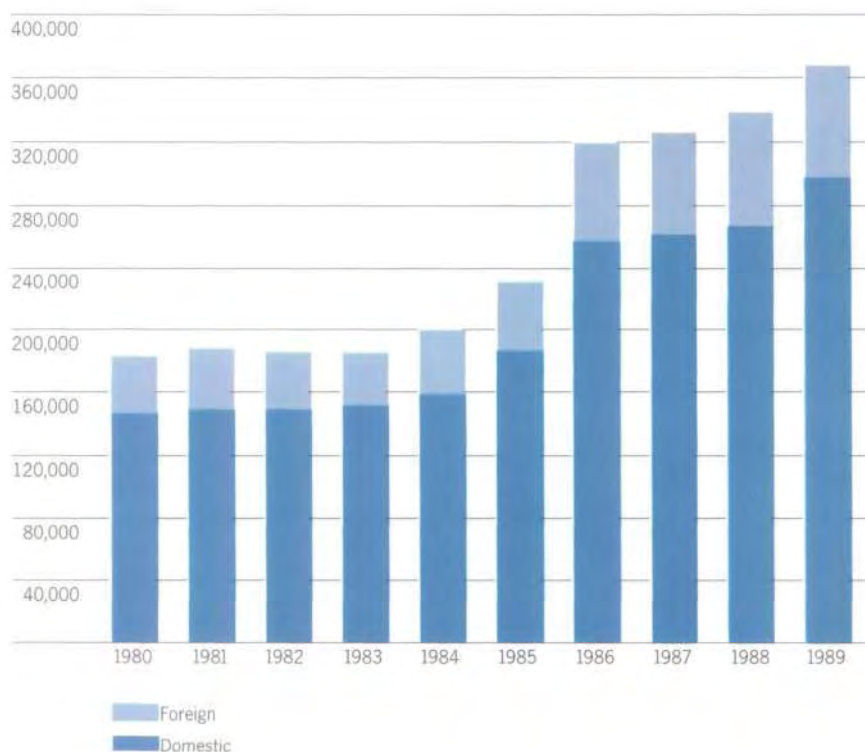
The workforce of the newly established Deutsche Aerospace with its member companies Dornier, MTU, Messerschmitt-Bölkow-Blohm and Telefunken Systemtechnik comprised 62,959 employees worldwide. A total of 24,194 employees were accounted for by the companies of the MBB group, which is included in these figures for the first time.

At year-end, the group employed 12,700 severely handicapped people in Germany. Once more in 1989, the legally prescribed employment quota of 6% was not reached. To compensate for this, a considerable number of orders were awarded to outside workshops for the handicapped, as in the previous year.

### Software Company Established

Daimler-Benz InterServices (debis) AG will be established as a further corporate unit on July 1, 1990. Within this unit, the legally independent software company commenced work at the beginning of the year. Following the transfer of activities, employees from the information processing sectors of all corporate units are gradually being incorporated into the software company. The agreement reached with the Group Labor Council set forth those conditions, benefits and job performance criteria that employees transferring from the relevant corporate units to the software company (Systemhaus) take with them, and how changes are to be structured in the future.

### Employees



**Personnel Expenditure**

The group's personnel expenditure rose by 4% to DM 23.2 billion. In Germany, union-negotiated wages and salary increases of 2.5% effective April 1, 1989 as well as higher social benefit levies had an impact.

The rising trend in social insurance premiums was reinforced by increases for the taxable wage bases in pension, unemployment and health insurance. Employment costs were also influenced by the reduction in standard working hours from 37.5 to 37.0 per week which came into effect on April 1, 1989.

**Company Pensions**

Company pensions constitute the nucleus of social benefits in all our corporate units. Together with state pensions and the necessary personal savings, they help assure financial security for our retired employees. Throughout the Daimler-Benz group, a total of DM 1.1 billion in company pensions was paid in 1989.

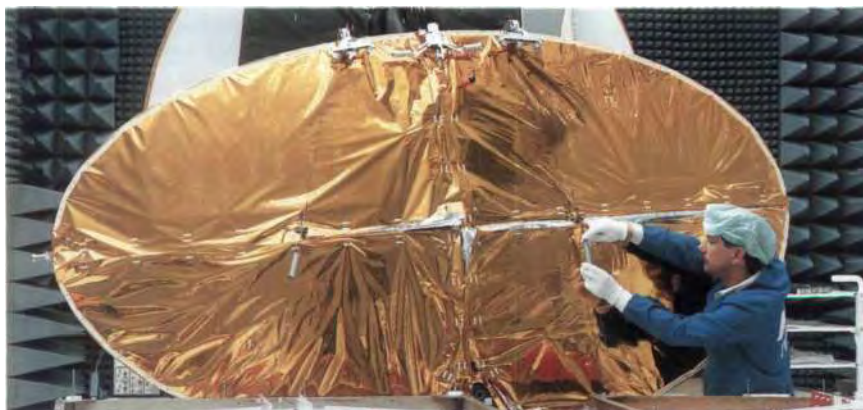
The same pension benefit rules, as established in 1987, continue to be in effect for both Daimler-Benz AG and Mercedes-Benz AG even after the regrouping of the vehicle business. For this reason, in the following we show total figures for both companies.

Daimler-Benz AG and Mercedes-Benz AG paid a total of DM 254 million to about 43,800 pensioners, widows and children within the framework of the company pension system. As provided by the Company Pension Law, payments to 7,778 pensioners and widows who started receiving pension benefits from us in the years 1977, 1980, 1983 and 1986 were adjusted, at an annual cost of DM 2 million. One-time assistance payments were awarded to about 6,000 employees. In order to cover future payments, an amount totaling DM 638 million was allocated to pension provisions at Daimler-Benz and Mercedes-Benz. Of this amount DM 27 million pertained to Daimler-Benz AG and DM 611 million to Mercedes-Benz AG. Of the latter figure, Daimler-Benz AG, in accordance with the contractual agreement at the time of the reassignment of the vehicle business, bore DM 171 million.

AEG disbursed DM 120 million to 40,800 pensioners, widows and orphans during the year under review. Corresponding payments made by the companies of Deutsche Aerospace amounted to DM 246 million.

**Special Payments**

The Christmas bonus and special remuneration awarded by Daimler-Benz AG and Mercedes-Benz AG was on the same level as in the previous year. Additionally, we made a single special payment of DM 100 per employee. Total expenses for special payments amounted to DM 638 million in all. AEG awarded DM 101 million. Within Deutsche Aerospace, DM 424 was awarded. For its 75th anniversary, Domier made additional special payments amounting to DM 10 million in all.



The transmitting antenna of the German broadcasting satellite TV-Sat being tested for dimensional accuracy



Extensive and detailed testing of cars is carried out



### Assistance in the Formation of Private Capital

As laid down in the labor agreement, every employee in the German workforce received DM 52 monthly towards the formation of private capital.

In accordance with the 5th Capital Formation Law, Daimler-Benz and Mercedes-Benz employees were offered the opportunity of purchasing either one or two Daimler-Benz employee shares or Mercedes-Automobil-Holding shares at a tax favored preferential price. Each employee was also given the opportunity of putting DM 312 into company debt certificates. A total of 84,480 employees purchased either one or two Daimler-Benz shares and 3,687 employees either one or two Mercedes-Automobil-Holding shares. Company debt certificates were subscribed to by 25,834 employees.

At Dornier, as a company of Deutsche Aerospace, 54% of eligible employees acquired 4,461 special dividend rights at DM 600 or DM 1,000 each. A total of DM 4.9 million was invested in the formation of private capital. At MTU, private capital formation payments are in the form of company debt certificates, for which DM 48.6 million was spent in all.

### Housing Subsidies

The building and acquisition of houses and apartments was supported by the individual corporate units. Interest-free and reduced-interest loans totaling more than DM 72 million were granted for 3,100 houses and apartments.

### Promoting the Employment of Women

An important responsibility in the personnel policy of all corporate units of Daimler-Benz AG is enabling our employees to plan a working career compatible with family life. Furthermore, the vocational opportunities available to women are to be enhanced, particularly in the technical trades.

At Daimler-Benz AG, Mercedes-Benz AG and AEG, labor agreements were concluded to this effect, and at MBB an already existing agreement was extended. The agreements provide for a so-called "family break" as a continuation of the legally prescribed maternity/paternity leave, after which employees can resume working in a comparable job.

### Strategic Managerial Exchange within the Group

In order to support, on the one hand, the integration of managerial staff in all parts of the group and, on the other hand, to secure a systematic transfer of information and thus to benefit from the knowledge of others, we are endeavoring to bring about an intensified exchange of managerial staff between the various cor-

porate units. With this measure, the way was paved in the year under review for the integrated development and assignment of managerial staff of the group in terms of objectives, fundamental principles and resources.

### Group Advanced Education

Senior managerial staff can benefit from encounters and dialog between the corporate units. Various seminars, especially those held at the corporate training center of Haus Lämmerbuckel on the Schwäbische (Swabian) Alb, establish the framework where corporate policy matters can be discussed extensively. These seminars are designed to foster common understanding for matters relating to leadership.



Last year saw the conclusion of a number of labor agreements which make it easier to combine work with family life

An important part of vocational training consists of courses in social studies, to assist young people in their personal development





**Continuing Education**

Particular significance has always been attributed to continued education at Daimler-Benz. In all corporate units, we offer a comprehensive range of courses for the most diverse fields of activity.

The main points of emphasis in advanced vocational training were the technical trades, engineering, computer science as well as information and communications technology. Due to increasing internationalization in business relations, language courses have proved more popular. Throughout the entire Daimler-Benz group, more than 154,000 employees participated in advanced vocational training courses. Most of the events are held in-house by our own education department, often in close cooperation with the relevant operational departments. Moreover, many external training courses were used for the fulfillment of special training requirements.



A cooperation model has been set up between the AEG Training Center in Frankfurt and the Mercedes-Benz plant in Bad Homburg in the area of technical vocational training

**Vocational Training**

In 1989, the Daimler-Benz group worldwide had 17,032 apprentices and trainees. Of these youngsters 8,796 at Mercedes-Benz, 2,800 at AEG and 2,554 at Deutsche Aerospace were preparing themselves for their future jobs in technical trade or business occupations. The broad range of vocational knowledge available to our trainees provides them with a solid basis for vocational and personal development. The training sectors, with various activities, also attempted last year to interest more young girls in technical trade courses.

Courses at colleges of advanced vocational studies have proved very popular

once more. The number of high school graduates applying for jobs has steadily risen over the past few years.

**In-House Information**

To supplement our existing information media, we have intensified the in-house information activities throughout the group for the integration of employees and managerial staff into the Daimler-Benz group and for promoting their identification with the group. Within the framework of a regular information service, managerial staff are informed of important matters relating to corporate and personnel policy.



Since the summer of 1989, the first departments have been moving into the new administration building in Stuttgart-Möhringen



At a trade fair in the spring of 1989, the Daimler-Benz group gave a presentation of the tasks and aims of personnel and training work

**Preventive Health Care and Safety at Work**

During the year under review, the medical services of the various corporate units employed a staff of more than 300 in all, including 57 company doctors. Particularly at small locations, this staff was supported by a large number of part-time works doctors and doctors under contract.

Their work was mainly concerned with rendering first aid, carrying out preventive check-ups, offering advice and giving courses on topics such as nutrition and addictive and dangerous substances; a further significant activity was collaboration in workplace design.

Due to the different employee and management structures within the group companies the various rates of absence time due to illness — based on nominal man-hours — are only comparable to a limited extent.

Absence Time In %	Total	Wage Earners	Salary Earners
Mercedes-Benz AG/ Daimler-Benz AG	7.4	9.1	3.6
AEG Aktiengesellschaft	6.2	8.4	3.3
Deutsche Aerospace	4.7	7.3	3.5

The number of industrial accidents occurring in the various corporate units was either reduced or maintained at an already low level. This gratifying result was particularly due to the proper instruction of managerial staff and their teams, the advanced training of safety experts and the careful planning of hazard analysis programs. The increased attention given to safety at work and ergonomics right at the planning stage of work systems has had positive effects.

**The Incorporation of Employees in Problem-Solving**

Good results and a strong identification of the employees with the tasks to be carried out in their respective areas of work have been achieved in the numerous workshop and production quality circles. In these organized discussion groups, the employees from the production sectors participate in solving specific problems and in other matters relating to their work.

With more than 33,500 suggestions for improvement submitted in 1989 the employees of all corporate units of Daimler-Benz AG demonstrated once more their great interest in their work.

The employees' suggestions were rewarded with premiums amounting to about DM 9.5 million.

**Sense of Community Through Sports**

Our employees in all corporate units have formed sports communities offering a broad range of sports programs that are sponsored by the companies. In June 1989, more than 2,500 employees from the Daimler-Benz group participated in the second Corporation Sports Festival, which was highly successful both in terms of sporting achievements and of promoting communication. The next Corporation Sports Festival is to take place in 1992.



Our works libraries provide a wide variety of reading material



The second Corporation Sports Festival met with a very positive response from the employees

**Valuation Methods Changed in Group Financial Statements**

In connection with the restructuring appropriate to a globally-oriented integrated high-technology concern, Daimler-Benz has also brought its accounting and valuation methods in the 1989 group statements closer into line with international practice. Foreign investors in particular did not always concur with our deliberately conservative valuation policies. It was, for example, often difficult to explain that we computed our pension obligations on the basis of a notional interest rate which was justified from a purely economical point of view

but which, in the final analysis, led to tax paid provisions amounting to billions of D-marks. Such amounts are usually shown in the balance sheet not under liabilities but under stockholders' equity.

The decision to have the Daimler-Benz stock listed on important international stock exchanges not only requires publication of key figures which are comparable internationally, but a financial statement and publication practice which is accessible to all our stockholders and all those interested in our company. For this reason pension provisions and inventories are now computed and valued on the basis of tax allowable

amounts in the first financial statements of the new Daimler-Benz group. Beginning with additions in 1989, depreciation allowances on fixed assets are calculated in accordance with tax regulations. The credits derived from these measures are included in consolidated net income despite the fact that they were largely earned and taxed in previous years.

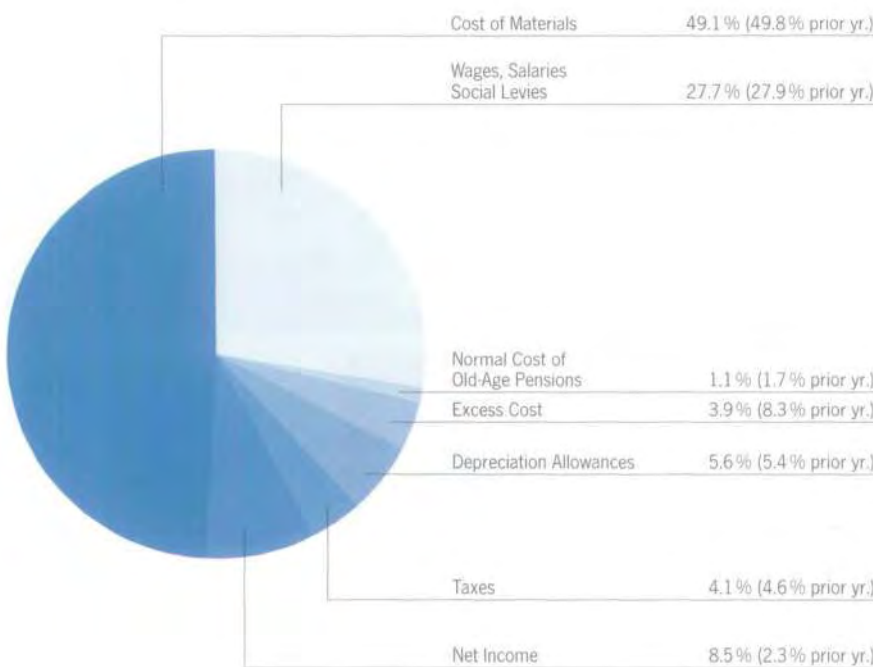
**Comparable Consolidated Net Income Similar to Last Year**

In 1989, Daimler-Benz's consolidated sales (excluding MBB) rose 4 % to DM 76.4 billion. The more robust increase of total output (DM 80.6 billion), by 6.5 %, was mostly due to the change in the valuation method for in-house manufactured products. This was also the primary reason for the decline in "purchases of goods and services" as a proportion of total output from 49.8 % to 49.1 %. Personnel expenses were characterized by higher amounts for wages/salaries as a result of collective bargaining increases and higher employment. Expenses for old-age pensions, in contrast, were lower; the reduction was almost exclusively due to the computation of pension expenses based on tax regulations, using a notional interest rate of 6 % instead of the 3.5 % applied to date. The higher amount for depreciation allowances of fixed assets — including leasing vehicles — and amortization of intangible assets is a reflection of increased capital investment activities; write-downs rose by 11 % to DM 4.4 billion.

Net interest income in the non-operating area increased from DM 1.0 billion to DM 1.1 billion on account of more favorable interest levels in countries where liquid funds had been invested. As in previous years, we have again reduced the inflationary portion of interest income earned in high-inflation countries such as **Brazil and Argentina**.

**Expense Structure in Terms of Total Output Daimler-Benz Group**

Total Output DM 80.6 billion (DM 75.6 billion last year)





The adjustments of the pension provisions and of inventories to the tax allowable valuation method have also been shown outside the actual operating sector. The dissolution of pension provisions is shown under "other operating income" which thus rose from DM 2.9 billion to DM 8.0 billion. The changed valuation of inventories is reflected in a rise in "increase in inventories" from DM 2.1 billion to DM 4.2 billion. Other operating expenses, too, are also inclusive of exceptional expenses, totaling roughly DM 1.4 billion. They are the result of special factors and measures connected with the restructuring of the Daimler-Benz group.

The extraordinary items recorded in the reporting year have, in the final analysis, led to the result that income from ordinary business activities nearly doubled to DM 10.1 billion.

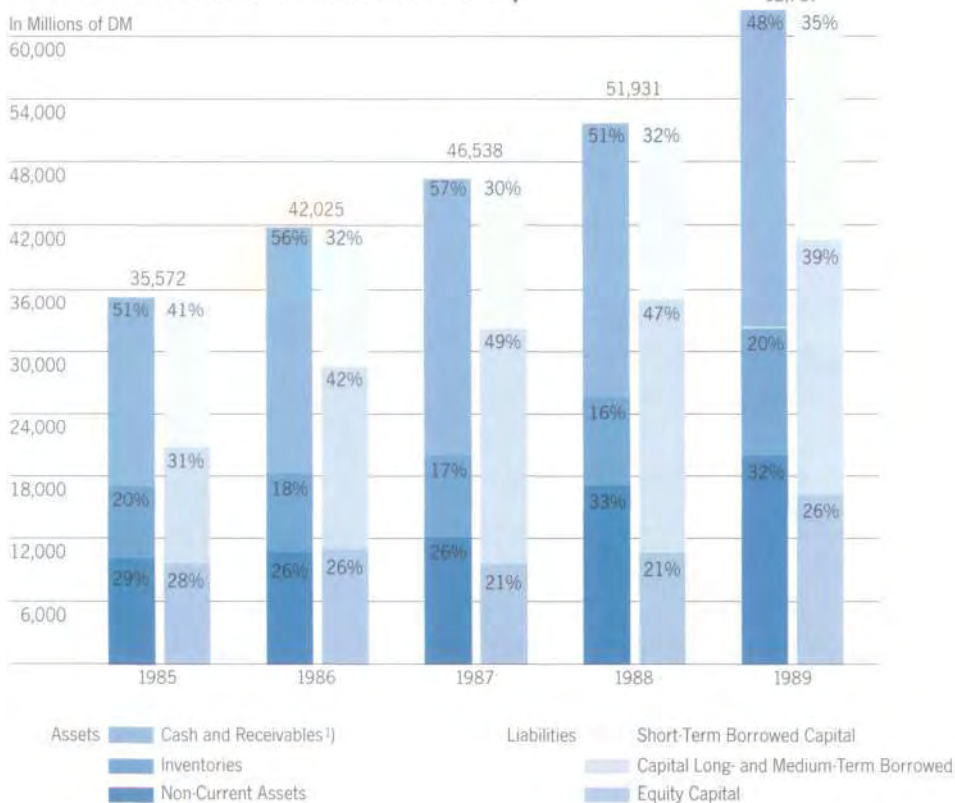
Since the dissolutions pertained to amounts which had been taxed before, the DM 0.2 billion reduction in the amount of taxes on income is exclusively applicable to 1989 income earned in Germany and abroad. Including the extraordinary items previously explained, consolidated net income rose to DM 6.8 billion. In order to make income comparable with last year, it is necessary that the one-time expenses, amounting to DM 1.4 billion, in connection with the restructuring of the group, be added to consolidated net income. However, the likewise one-time credits of DM 6.5 billion resulting from the new valuation procedures, which are shown in the income statement mostly under "increase of inventories" and "other operating income", have to be deducted for comparison of the figures to be realistic. The net income amount of DM 1.7 billion is thus roughly the same as that for 1988.

### Improved Balance Sheet Ratios

The balance sheet total rose by DM 10.8 billion to DM 62.7 billion on account of the increased business volume and the first-time inclusion in consolidation of MBB. Non-current assets including leased vehicles rose DM 2.7 billion to DM 20.1 billion. The goodwill amounts capitalized the previous year together with goodwill amounts resulting from the acquisition of a majority stake in MBB (DM 2.8 billion in total) have been directly charged to stockholders' equity. Fixed asset additions of DM 5.9 billion, DM 1.0 billion of which relate to MBB, were offset by dis-

posals and depreciation totaling DM 3.4 billion. The DM 0.3 billion rise in financial assets pertains to a large extent to new equity investments in DASA and AEG. As in the previous year, the balance sheet amount shown for leased vehicles rose again, by DM 1.4 billion. At DM 5.0 billion, vehicle leasing now accounts for one-fourth of the entire non-current assets. Excluding the stocks of leasing vehicles, non-current assets amounted to 24 % (26.3 % last year) of total assets. Inventories, which rose by DM 5.8 billion to DM 18.7 billion, were again one-third financed by advance payments from customers. Their ratio in

Balance Sheet Structure Daimler-Benz Group





**Consolidated Statement of Changes in Financial Position 1989**

(In Millions of D-Marks)

**Sources of Funds from Business Activities**

Net income	+ 6,809	
Depreciation allowances and disposal of intangible and of fixed assets	+ 3,449	
Write-downs of financial assets	+ 80	
Change of provisions for Old-age pensions	( 4,253)	
Change of medium- and long-term other provisions	+ 1,206	
Change in inventory valuation method	( 1,300)	
<b>Cash flow</b>		<b>+ 5,991</b>

**Sources of Funds from Financing Activities**

Increase in capital stock and paid-in capital	+ 1,955	
Increase in retained earnings	+ 97	
Increase in medium-term and long-term liabilities	+ 434	
Increase in short-term and remaining provisions	+ 1,387	
Increase in short-term liabilities and deferred credits	+ 2,960	
Increase of other medium-term and long-term liabilities	+ 2,459	
		<b>+ 9,292</b>

**Application of Funds**

Increase of intangible assets (including goodwill charged to retained earnings in 1989)	( 1,323)	
Increase in fixed assets	( 5,919)	
Increase in financial assets (net)	( 378)	
Increase in leased vehicles (reduced by depreciation allowances)	( 1,365)	
Increase in inventories (net) (reduced by valuation adjustments)	( 2,651)	
Increase in trade receivables and other assets	( 2,924)	
Dividend payment for 1988	( 504)	
		<b>(15,064)</b>
<b>Change in net liquidity</b>		<b>+ 219</b>

**Analysis of Change in Net Liquidity**

	12/31/88	12/31/89	
Cash	2,179	2,985	( 194)
Other securities	5,111	5,900	+ 787
Remaining liquidity	5,810	5,753	( 157)
	14,302	14,638	
Short-term liabilities to financial institutions	( 12,953)	( 1,770)	( 217)
	12,660	12,868	+ 219

terms of total assets rose from 16.2 % to 19.7 % on account of the inclusion of MBB and the change in valuation methods. Liquid funds increased slightly from DM 14.2 billion to DM 14.6 billion; thus they still account for 23.3 % (27.4 % in 1988) of total assets.

On the liability side of the balance sheet shareholders' equity capital — excluding the amounts set aside for dividend payments — rose by DM 5.6 billion to DM 16.4 billion. The strong growth was due to the extraordinary income derived from the new valuation method and to the November 1989 capital increase; goodwill amounts had a counterbalancing effect. The equity capital ratio, amounting to 26.2 % (20.8 % last year), was noticeably higher. Because of the decline in the non-current asset ratio, non-current assets covered by equity capital climbed from 79 % to 109 %. This calculation was made disregarding leasing vehicles in stock because they are basically financed through borrowed capital apart from depreciation and disposals. Our financial liabilities for leased and financed cars and commercial vehicles amounted to DM 4.5 billion at year-end.

Also as a result of our altered valuation methods, the ratio of provisions to total capital and liabilities declined from 49.9 % to 42.6 %. While pension provisions were lower by 10 percentage points, other provisions rose from 23.7 % to 26.5 %. Non-current assets, net inventories as well as 13.6 % (22.2 % in 1988) of other assets are covered by net equity and long and medium-term provisions.

### **Investments in Fixed and Financial Assets Again Fully Financed from Cash Flow**

The internally generated cash flow amounting to DM 6.0 billion, which was adjusted by the balance sheet amounts taken over from MBB at the end of 1989 and by the extraordinary income included in net income, exceeded additions to non-current assets involving out-of-pocket costs for the Daimler-Benz group in 1989 by DM 0.8 billion. The additions of DM 12 billion at MBB during the year under review were also excluded from this computation.

Additional funds were derived from the capital increase in November of 1989, and the increase in short-term liabilities mostly in connection with the first-time inclusion in consolidation of MBB. The cash used reflects the increased investment activities of the group. Included in the additions are the fixed assets of MBB as well as the goodwill resulting from the purchase of this company. Investments in intangible and fixed assets, net long-term financial assets as well as the 1989 goodwill amounts, which were immediately offset against stockholders' equity, reached a total value of DM 7.6 billion.

### **Financing Principles**

With the commencement of business activities by the holding company and the central financial management connected with this, all domestic companies within the group have, within the framework of our Cash Concentration Program, transferred all their liquid funds, including marketable securities, to Daimler-Benz AG.

The entire liquidity, which at the end of the year amounted to DM 14.6 billion, is being invested in such a manner that all financial requirements derived from the business purpose of the company can be met on a short-term basis. Thus, the investment in marketable securities dovetails, with respect to the return flow

of funds, with our medium-term investment plan. The portfolio of our domestic companies is, therefore, composed of first-class fixed-interest securities with an average maturity of two to four years.

It is a matter of group policy that strategic fiscal decisions are made centrally. In addition, the operational finance and liquidity management remains with Daimler-Benz AG. Depending on the task at hand, individual financial measures are sometimes introduced on a decentralized basis. We are thus able to optimally use national and international money and capital markets with their varied peculiarities and opportunities.

Last year, for that reason, we issued a U.S. \$ 100 million Eurobond of Daimler-Benz International Finance B.V., a 75 million Canadian dollar Eurobond of Mercedes-Benz Credit of Canada Inc., and a commercial paper program of Mercedes-Benz Leasing Nederland B.V.

We try to mitigate and limit the currency risks inherent in ongoing delivery programs to foreign sales companies by continued foreign exchange hedging measures within the group. It is our general strategy, depending on anticipated exchange rate developments in risk-prone currencies — the approach varying from country to country — to hedge approximately one-half of the planned delivery volume for the next six to twelve months.

### **Financing of Sales and Projects**

Servicing our customers in financial matters requires — particularly for larger projects — individual solutions even in industrialized countries.

In emerging and developing countries, the worldwide boom of the last few years led to an improvement in the foreign exchange situation. Yet it is not possible to speak of an easing of the debt problem. Regional differences continue to be considerable. Noticeable progress in their economic development has been achieved, above all by the emerging countries in Asia. The foreign exchange situation also improved in some Latin American countries, particularly as a result of the support given by the International Monetary Fund. In contrast, the financial situation in some countries in Africa and the Near East has, if anything, deteriorated. The expected development in Eastern Europe will pose not inconsiderable financial demands.

Traditionally, we endeavor to hedge the risk inherent in export business. We have continued this policy in the year under review. Because of the reluctance displayed by banks in issuing credits to countries of the Third World, the financing and risk-hedging requirements remain high. It is for this reason that public funding within the framework of bilateral and multilateral cooperation became more and more important for the financing of investments in developing countries. Funds which are made available for such financing programs are also of increasing importance for the purchase commitments entered into by our companies.

## Key Figures of Major Subsidiaries of Daimler-Benz AG

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	Owner ship in %	Net Equity <sup>1)</sup> in millions of DM	Net Income <sup>1)</sup> 1989 in millions of DM	1988 in millions of DM	Sales Revenue <sup>2)</sup> 1989 in millions of DM	1988 in millions of DM	Employment at year-end 1989	1988
<b>Federal Republic of Germany</b>								
AEG, Berlin und Frankfurt am Main <sup>3)</sup>	80.2	2,031	274.9	26.7	12,244	13,380	77,722	89,585
Deutsche Aerospace, München <sup>3)</sup>	100.0	2,682	(139,2)	-	7,798	-	62,959	-
Mercedes-Benz, Stuttgart <sup>3)</sup>	100.0	8,526	1,492.3	-	56,367	-	223,219	-
Mercedes-Benz Finanz GmbH, Stuttgart <sup>3)</sup>	100.0	229	( 2.3)	8.8	1,623 <sup>5)</sup>	1,014 <sup>4)</sup>	270	232
<b>Europe</b>								
Mercedes-Benz España, Madrid	87.5	239	70.4	25.6	1,756	1,517	3,391	3,577
Mercedes-Benz (United Kingdom), Milton Keynes <sup>3)</sup>	100.0	283	66.5	94.8	2,928	2,517	1,208	1,158
Daimler-Benz Holding Nederland, Utrecht <sup>3)</sup>	100.0	161	7.7	0.3	-	-	-	-
Mercedes-Benz Nederland, Utrecht <sup>3)</sup>	100.0	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	1,079	1,083	711	712
Mercedes-Benz Leasing, Nederland, Utrecht	100.0	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	185 <sup>5)</sup>	85 <sup>4)</sup>	29	22
Daimler-Benz Holding Belgium, Brussels	100.0	251	4.5	76.4	-	-	-	-
Mercedes-Benz Belgium, Brussels <sup>3)</sup>	100.0	147	36.3	31.6	1,015	929	943	938
Mercedes-Benz Finance Belgium, Brussels	100.0	16	1.9	2.6	98 <sup>5)</sup>	70 <sup>4)</sup>	34	34
Daimler-Benz Holding France, Rocquencourt <sup>3)</sup>	99.7	288	55.2	55.3	-	-	-	-
Mercedes-Benz France, Rocquencourt <sup>3)</sup>	99.7	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	3,115	2,737	2,145	2,265
Mercedes-Benz Italia, Rome	88.5	279	67.3	41.3	2,393	1,971	765	716
Daimler-Benz Holding, Zürich	100.0	296	164.3	89.3	-	-	-	-
Mercedes-Benz (Schweiz), Zürich	51.0	92	7.4	13.7	1,077	1,024	292	272
Mercedes-Benz Credit, Zürich	70.0	23	0.7	0.8	186 <sup>5)</sup>	150 <sup>4)</sup>	22	21
Mercedes-Benz Finanziaria, Rome	85.0	34	2.0	1.6	406 <sup>5)</sup>	351 <sup>4)</sup>	99	95
<b>North America</b>								
Daimler-Benz of North America Holding, New York <sup>3)</sup>	100.0	2,435	130.7	79.9	-	-	7	7
Freightliner, Portland <sup>3)</sup>	100.0	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	3,316	3,004	6,141	6,101
Mercedes-Benz of North America, Montvale <sup>3)</sup>	100.0	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	6,116	6,221	1,763	1,752
Mercedes-Benz Credit, Norwalk/U.S.A. <sup>3)</sup>	100.0	. <sup>4)</sup>	. <sup>4)</sup>	. <sup>4)</sup>	2,499 <sup>5)</sup>	2,372 <sup>4)</sup>	342	299
<b>Latin America</b>								
Mercedes-Benz do Brasil, São Bernardo do Campo <sup>3)</sup>	100.0	1,245	429.9	257.2	3,195	4,385	19,556	20,260
Sofunge, São Paulo	100.0	41	11.6	17.1	196	183	2,404	2,398
Mercedes-Benz Argentina, Buenos Aires <sup>3)</sup>	100.0	129	1.3	1.5	114	265	1,993	2,021
<b>Africa, Asia, Australia</b>								
Mercedes-Benz of South Africa, Pretoria <sup>3)</sup>	50.1	206	35.2	65.4	1,667	1,438	5,519	5,179
Mercedes-Benz Japan, Tokyo	100.0	132	52.2	32.0	1,582	1,431	225	191
Daimler-Benz (Australia), Mulgrave/Melbourne <sup>3)</sup>	100.0	164	36.3	30.6	709	728	1,018	934

1) Figures from national financial statements for 1989/88, converted at applicable year-end exchange rates.

2) Converted at applicable average annual rates.

3) Consolidated.

4) Included in financial statements of the relevant holding companies.

5) New business.

### Continued Growth of Our Leasing and Financing Companies

The dynamic growth of our leasing and financing companies is largely due to the fact that the finance package we offer is consistently geared to the needs of our customers and the marketplace. Through joint efforts and close cooperation between the leasing and financing companies and the sales companies, we were also able in 1989 — despite increasing competition — to win over new customers by means of attractive finance and service packages. In this context, the service concept is gaining more and more importance as compared to mere product/price thinking. Important elements of our service range are quick credit approval, an unbureaucratic handling of contracts and, in addition, flexible and individual service to our customers.

The new vehicle business of our leasing and financing companies rose worldwide by 22 % to DM 5.8 billion during the year under review. Again, about two-thirds of the business volume pertained to passenger cars. Contracts on hand increased by 36 % to DM 10.7 billion; this figure represents 223,000 contracts.

The Mercedes-Benz Credit Corporation in the USA was again able to continue the strong growth rate of the previous years. Despite difficult conditions in the American marketplace, business volume rose by 30 % to DM 5.2 billion, thus providing valuable support to our US sales organization. The concurrent expansion of our leasing activities in the commercial vehicle sector was due, to a not inconsiderable extent, to advisors who had been especially trained for this purpose.

Gratifying growth rates were achieved by our European leasing and financing companies. Thus in Italy, Mercedes-Benz Finanziaria — with its six branch offices — further increased its business volume, by 28 % to DM 600 million. One in every four commercial vehicles sold by our Italian sales organization was financed through our own finance company. In the Netherlands, changes in tax laws led to an increased demand for commercial vehicles, from which both the sales figures of the sales organization and the new vehicle business of Mercedes-Benz Leasing profited; business volume more than doubled in 1989 with the addition of new contracts worth DM 170 million. Our company in Switzerland, Mercedes-Benz Credit AG, which is mainly active in the leasing area, and Mercedes-Benz Finance in Belgium, were both able to substantially increase their business volume. In France, "Solovam", a joint venture company with Société Générale further expanded its network of branches. Particularly as a result of a concept geared to greater customer proximity it increased new vehicle business by 27 %. In Spain, we increased our holding in the existing joint venture with Banco Hispano Americano to 50 %. Despite a difficult economic environment, the two companies Merbefina and Merbeleasing were able to assert themselves well in the Spanish marketplace.

The two companies Mercedes-Benz Finanz GmbH and Mercedes-Benz Leasing GmbH, doing business in the Federal Republic of Germany under the joint product name "Mercedes-Benz Lease Finanz", were again able to achieve above-average growth during the reporting year. New leasing and financing contracts involving some 35,000 vehicles totaled DM 1.7 billion, of which nearly 80 % pertained to cars. The business volume for the group climbed from DM 1.2 billion to DM 2.0 billion.

Through the establishment of Mercedes-Benz Finance Ltd., Milton Keynes, at the beginning of 1990, we created the conditions which will enable us to offer to our customers in the United Kingdom a comprehensive financing and leasing program for cars and commercial vehicles in the future.

The managerial responsibilities of the leasing and financing companies will be taken over by the newly-formed Daimler-Benz InterServices (debis) AG, effective July 1, 1990. In addition, it is our goal to extend, step by step, the activities of our leasing and finance companies to cover the products of AEG and DASA.

The growth of our leasing and finance companies has led to further increases in capital requirements. Seeking to keep the capital deployed in the group on a tight rein, we used the higher borrowing capability of these companies compared with production and sales companies so that again the capital requirements were largely covered by outside financing. We made use of refinancing opportunities, both locally as well as via international money and capital markets, on first-class conditions.

\*

Our business policy at home and abroad in 1989 was again in conformity with the "OECD Guidelines for Multinational Companies".





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## Consolidated Balance Sheet of Daimler-Benz AG

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<b>ASSETS</b>	Notes	December 31, 1989 In Millions of D-Marks	December 31, 1988 In Millions of D-Mark
<b>Non-Current Assets</b>			
Intangible Assets	( 1)	130	1,575
Fixed Assets	( 2)	13,508	10,984
Financial Assets	( 3)	1,403	1,105
Leased Vehicles	( 4)	5,043	3,678
		<u>20,084</u>	<u>17,342</u>
<b>Current Assets</b>			
Inventories	( 5)	18,726	12,923
Advance Payments Received	( 6)	( 6,390)	( 4,538)
		<u>12,336</u>	<u>8,385</u>
Receivables	( 7)	10,511	8,523
Other Assets	( 8)	9,732	8,179
Marketable Securities	( 9)	6,016	5,279
Cash	(10)	2,985	3,179
		<u>41,580</u>	<u>33,545</u>
<b>Prepaid Expenses and Deferred Taxes</b>	(11)	1,073	1,044
		<u>62,737</u>	<u>51,931</u>
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Stockholders' Equity</b>			
Capital Stock	(12)		
	(13)	2,330	2,118
Paid-In Capital	(13)	2,114	370
Retained Earnings	(14)	11,195	7,518
Minority Interests	(15)	767	626
Unappropriated Profit of Daimler-Benz AG		560	691
		<u>16,966</u>	<u>11,323</u>
<b>Provisions</b>			
Provisions for Old-Age Pensions and Similar Obligations	(16)	10,086	13,624
Other Provisions	(17)	16,624	12,287
		<u>26,710</u>	<u>25,911</u>
<b>Liabilities</b>			
Accounts Payable Trade	(18)	5,810	4,837
Other Liabilities	(19)	12,963	9,732
		<u>18,773</u>	<u>14,569</u>
<b>Deferred Credits</b>			
		288	128
		<u>62,737</u>	<u>51,931</u>

## Consolidated Statement of Income of Daimler-Benz AG

	Notes	1989 In Millions of D-Marks	1988 In Millions of D-Marks
<b>Sales Revenue</b>	(20)	<b>76,392</b>	<b>73,495</b>
Increase in Inventories and Other Capitalized In-House Output	(21)	4,160	2,142
<b>Total Output</b>		<b>80,552</b>	<b>75,637</b>
Other Operating Income	(22)	7,977	2,871
Purchases of Goods and Services	(23)	(39,552)	(37,646)
Personnel Expenses of which for Old-Age Pensions DM 862 million (DM 1,247 prior year)	(24)	(23,199)	(22,371)
Amortization of Intangible Assets, Depreciation Allowances of Fixed Assets and of Leased Vehicles	(25)	( 4,387)	( 3,951)
Other Operating Expenses	(26)	(12,292)	(10,187)
Net Income from Affiliated, Associated, and Related Companies	(27)	48	14
Net Interest Income	(28)	1,121	1,017
Write-Downs of Financial Assets and of Marketable Securities	(29)	( 172)	( 187)
Results from Ordinary Business Activities		10,096	5,197
Income Taxes	(30)	( 2,743)	( 2,981)
Other Taxes	(30)	( 544)	( 514)
<b>Net Income</b>	<b>(31)</b>	<b>6,809</b>	<b>1,702</b>
Transfer to Retained Earnings		( 5,870)	( 984)
Income Applicable to Minority Shareholders		( 446)	( 56)
Loss Applicable to Minority Shareholders		67	29
<b>Unappropriated Profit of Daimler-Benz AG</b>		<b>560</b>	<b>691</b>



## Consolidated Statement on Non-Current Assets

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In Millions of D-Marks	1/1/89*)	Acquisition-/Self-Construction Costs			12/31/89
		Additions*)	Reclassifications	Deductions	
<b>Intangible Assets</b>	<b>1,749</b>	<b>105</b>	<b>5</b>	<b>1,519</b>	<b>340</b>
<b>Fixed Assets</b>					
Land, Land Equipment Titles and Buildings, Including Buildings on Land Owned by Others	11,543	1,695	723	144	13,817
Technical Equipment and Machinery	17,043	1,232	473	459	18,289
Other Equipment, Factory and Office Equipment	12,205	1,667	268	557	13,583
Advance Payments Relating to Plant and Equipment and Construction in Progress	2,183	1,325	(1,471)	140	1,897
	<b>42,974</b>	<b>5,919</b>	<b>( 7)</b>	<b>1,300</b>	<b>47,586</b>
<b>Financial Assets</b>					
Investments in Affiliated Companies	528	208	-	-	736
Loans to Affiliated Companies	3	16	-	-	19
Investments in Associated Companies	357	126	( 24)	262	197
Investments in Related Companies	446	176	24	30	616
Loans to Related Companies	11	11	-	4	18
Investments in Securities	288	12	-	10	290
Other Long-Term Receivables	395	101	-	74	422
	<b>2,028</b>	<b>650</b>	<b>-</b>	<b>380</b>	<b>2,298</b>
	<b>46,751</b>	<b>6,674</b>	<b>( 2)</b>	<b>3,199</b>	<b>50,224</b>
<b>Leased Vehicles</b>	<b>5,185</b>	<b>3,061</b>	<b>2</b>	<b>1,015</b>	<b>7,233</b>

\*) Including carry-forward amounts of companies consolidated for the first time.

1/1/89*)	Amortization/Depreciation/Write-Downs			Net Book Values		
	Current Yr.	Reclassifications	Deductions	12/31/89	12/31/89	12/31/88
<b>174</b>	<b>56</b>	<b>-</b>	<b>20</b>	<b>210</b>	<b>130</b>	<b>1,575</b>
6,167	577	31	68	6,707	7,110	5,376
15,014	1,156	23	415	15,778	2,511	2,029
10,748	1,318	31	511	11,586	1,997	1,457
61	31	(85)	-	7	1,890	2,122
<b>31,990</b>	<b>3,082</b>	<b>-</b>	<b>994</b>	<b>34,078</b>	<b>13,508</b>	<b>10,984</b>
466	4	-	-	470	266	62
2	-	-	-	2	17	1
108	-	(7)	87	14	183	249
186	57	7	1	249	367	260
2	-	-	-	2	16	9
62	-	-	5	57	233	226
97	19	-	15	101	321	298
<b>923</b>	<b>80</b>	<b>-</b>	<b>108</b>	<b>895</b>	<b>1,403</b>	<b>1,105</b>
<b>33,087</b>	<b>3,218</b>	<b>-</b>	<b>1,122</b>	<b>35,183</b>	<b>15,041</b>	<b>13,664</b>
<b>1,507</b>	<b>1,249</b>	<b>-</b>	<b>566</b>	<b>2,190</b>	<b>5,043</b>	<b>3,678</b>
					<b>20,084</b>	<b>17,342</b>

# Supplement to 1989 Consolidated Financial Statements

## Accounting Principles and Methods

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The consolidated financial statements have been prepared in accordance with the regulations set forth in the Accounting Standards Act and are stated in millions of DM with comparable prior year's figures. The summary captions in the balance sheet and in the statement of income are separately shown in the supplement and — if required — explained.

### Accounting Standards and Valuation Methods

Due to the requirements arising from its restructuring into a globally operating, integrated high-technology group, Daimler-Benz has brought the application of accounting principles more closely into line with national and international practice. When operating purely as an automobile company, a conservative accounting and valuation policy was applied; this, however, led to a situation whereby the newly-structured Daimler-Benz group could no longer be appropriately judged in international comparison. It is for this reason that we have made the following specific valuation changes:

#### — Fixed Assets

Beginning in 1989, depreciation is calculated using the full-year rate for additions during the first six months, and the half-year rate for additions during the second six months. Self-constructed facilities are valued at tax-allowable construction costs. Considering the additional, one-time valuation adjustments made in the consolidated financial statements with respect to certain asset categories, the change in the depreciation method itself has had no material effect on earnings.

#### — Products

Manufactured products are valued at manufacturing costs plus applicable overheads in accordance with the German tax regulations. Previously, manufactured products only included direct labor and direct materials. This change resulted in higher income to the amount of about DM 1.3 billion, correspondingly increasing the income caption "Increase in Inventories and Other Capitalized In-House Output".

#### — Provisions for Old-Age Pensions

Provisions for old-age pensions and similar obligations are actuarially computed in accordance with the tax regulation of Section 6a of the Income Tax Act, at an interest rate of 6 % per annum. Previously, a rate of 3.5 % was used. Using the higher interest rate resulted in higher income of about DM 4.9 billion and is shown in the income statement under "Other Operating Income".

Moreover, 1989 pension expenses were thus reduced by roughly DM 0.3 billion. Pension provisions in the individual financial statement of Daimler-Benz AG are computed using an interest rate of 3.5 %.

In contrast to the income resulting from the change in the above-mentioned valuation methods, we had one-time extraordinary expenditures of about DM 1.4 billion in connection with the reorganization of the concern.

The goodwill amounts of DM 1,547 million capitalized in the previous year, in connection with the capital consolidation and equity valuation, together with the goodwill amounts of DM 1,218 million originating in 1989, have been charged to retained earnings.

The remaining accounting and valuation methods have been applied unchanged from 1988. Assets and liabilities presented in the consolidated balance sheet — in identical circumstances — are uniformly valued. Provisions for approved change-over, alteration, maintenance and development projects were recorded in 1989 or updated.

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

The acquisition costs or self-construction costs are reduced by investment tax credits and then by scheduled depreciation charges. 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 Subsection 35 of the Income Tax Guidelines.

Scheduled depreciation allowances are calculated, generally using the following useful lives: 17 to 50 years for buildings, 8 to 20 years for site improvements, 3 to 20 years for technical equipment and machinery, 2 to 10 years for other factory and office equipment. Facilities used for multishift operations are depreciated sometimes using lower useful lives.

Moveable property with a useful life of 4 years and over, beginning with acquisitions in 1989, is depreciated at 30 % (previously 33 1/3 %), 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 affiliated companies and other financial assets are valued at acquisition costs or at market values if lower, interest-free or low-interest long-term receivables are shown at their present value. The major investments in associated companies 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 are valued at production costs which comprise, apart from direct materials and direct labor, applicable manufacturing overheads including depreciation charges.

To the extent that inventory risks are determinable, i.e. for reduced usability after prolonged storage or after design changes, reasonable deductions are made, which for manufactured goods must not result in a loss upon sale.

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 varying from 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. Marketable securities are valued at the lower of cost or market.

Provisions for old-age pensions and similar obligations are actuarially determined on the basis of an assumed interest rate of 6 % using the Entry Age Actuarial Cost Method.

Provisions for taxes and other provisions are determined on the basis of fair and reasonable business judgement. 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 as benefits are vested.

Liabilities are shown at their repayment amounts.

### **Companies Included in Consolidation**

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

The companies included in consolidation encompass — apart from Daimler-Benz AG — 71 domestic and 194 foreign subsidiaries. A complete listing of our ownership interests will be filed with the commercial registry office at the county court house in Stuttgart (Dept. B No. 173).

During the reporting year, 28 companies were added to and 59 companies deleted from consolidation.

Not included are 169 subsidiaries whose effect on the consolidated financial statements is not material (their sales volume is less than 1 % of consolidated sales) and 12 companies administering pension funds whose assets are solely used for pension purposes.

Deutsche Aerospace AG acquired a voting majority in Messerschmitt-Bölkow-Blohm GmbH (MBB) as recently as December 1989. Because of the relatively short membership of the consolidated group, only the group balance sheet of MBB, and not the group statement of income, is included in the consolidated financial statements of Daimler-Benz.

In accordance with Section 296, Subsection 1, No. 1, of the Commercial Code, Deutsche Airbus GmbH is not consolidated because MBB, in its relation to this company on account of agreements with the Federal Republic of Germany and of rules in the bylaws with respect to resolutions, is restricted in exercising its rights. The investment in Deutsche Airbus GmbH is valued in the consolidated Financial statements pursuant to the "equity method".



## 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 of the subsidiary at the time of acquisition or first-time consolidation. The difference from the elimination (goodwill) arising from 1989 additions has been charged to retained earnings.

Profits earned by subsidiaries after the date of acquisition were added to retained earnings. The unappropriated profit is the same in the individual financial statements of Daimler-Benz AG and in the consolidated financial statements. We have, in this connection, charged or credited, as appropriate, to consolidated retained earnings the amounts of the income-affecting consolidation measures, and the results of operations of the subsidiaries.

In the consolidated financial statements, we have included 99 associated companies. These are shown on the share-ownership listing which is to be filed with the commercial registry office at the county court house in Stuttgart.

Eight associated companies, including ABM Beteiligungsgesellschaft mbH, Munich and the affiliated company Deutsche Airbus GmbH, Hamburg, are included in consolidation according to the equity method. The goodwill amount resulting from additions in 1989 was likewise charged to consolidated retained earnings.

The remaining associated companies are shown under investments in related companies at acquisition costs less write-downs as they were not material to the consolidated balance sheet, consolidated financial position and consolidated results of operations.

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

All material intercompany profits resulting from intercompany sales of goods and services were 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 are eliminated in the consolidated statement of income against the relevant costs, or are reclassified to "capitalized in-house output" or to "increase in inventories".

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

## Currency Translation

Foreign currency receivables are translated in the individual financial statements at the bid price on the day they are recorded or at the 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 non-current 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 retained in the consolidated statement of income without change, effectively preventing reflection of inflationary profits.

Expense and income items are translated at average annual exchange rates, items from inflation-adjusted income statements of our Argentinian companies at year-end exchange rates. To the extent that they relate to fixed assets (fixed asset depreciations, profit or loss from disposal of fixed assets), they are translated at historical costs. Net income, additions to retained earnings, and the unappropriated profit are translated at year-end rates. The income taxes of our Brazilian companies, which were already geared to the balance sheet date in the national financial statements, were also translated at year-end rates. The differences resulting from the translation at average rates in effect during the year and the exchange rates at the balance sheet date are reflected in other operating expenses.

## Notes to Consolidated Balance Sheet

**( 1) Intangible Assets**

Intangible assets, amounting to DM 130 million, comprised mostly acquired EDP software as well as patents and similar rights. The goodwill amount of DM 1,496 million resulting from the previous year's capital consolidation has been transferred to retained earnings.

**( 2) Fixed Assets**

The increase in fixed assets by DM 2,524 million was based on expenditures totaling DM 5,919 million for property, plant and equipment, and for the extension of the concern (MBB accounted for about DM 1.0 billion thereof), less depreciation and disposals totaling DM 3,395 million.

Depreciation charges solely on the basis of tax regulations amounted to DM 187 million; depreciation in excess of scheduled depreciation amounted to DM 60 million.

**( 3) Financial Assets**

Because of the first-time inclusion in consolidation of MBB, financial assets rose by about DM 0.1 billion. Further additions pertained mostly to the purchase of shares in ABM-Beteiligungsgesellschaft mbH. The goodwill amount of DM 51 million shown for this last year has been charged to retained earnings.

Investments in securities totaling DM 233 million pertained mostly to Daimler-Benz AG. Unscheduled write-downs of investments in securities and of long-term receivables, totaling DM 80 million, had to be made. Because of increased market values, investments in securities should have been written up by DM 49 million in accordance with the value appreciation doctrine (Section 280, of the Commercial Law), but such write-up was not made for tax reasons.

**( 4) Leased Vehicles**

The increase in leased vehicles by DM 1,365 million to DM 5,043 million pertained overwhelmingly to Mercedes-Benz Credit Corporation, Norwalk, USA, and to Mercedes-Benz Leasing GmbH, Stuttgart. About 90 % of this balance sheet item pertained to these two companies.

**( 5) Inventories**

In millions of DM	1989	1988
Raw materials and manufacturing supplies	3,143	2,556
Work in process	7,196	4,788
Finished goods, parts and goods purchased for resale	6,655	4,480
Advance payments to suppliers	1,732	1,099
	18,726	12,923

The inventory increase by DM 5,803 million to DM 18,726 million pertained with approx. DM 3.3 billion to the initial consolidation of MBB, and with DM 1.3 billion to changes in the method of valuing manufactured products.

AEG and Deutsche Aerospace accounted for more than 50 % of the consolidated inventory total.

**( 6) Advance Payments Received**

Advance payments amounting to DM 6,390 million (DM 4,538 million last year) were received from customers almost exclusively for projects and long-term contracts at AEG, Dornier, MTU and MBB; they were deducted from inventories.

The enlargement of the circle of consolidated companies through inclusion of MBB has increased this balance sheet item by roughly DM 1.7 billion.

**( 7) Receivables**

In millions of DM	1989	of which maturing after one year	1988	of which maturing after one year
Receivables from sale of goods and services	8,336	393	7,273	415
Receivables from affiliated companies	395	163	13	—
Receivables from related companies	1,780	495	1,237	347
Total receivables	10,511		8,523	
Other assets	9,732	4,775	8,179	4,384

Approx. DM 1.1 billion of the receivables from related companies pertain to credit balances at financial institutions.

Other assets include investments of liquid funds in debt instruments not traded on stock exchanges. They amounted to DM 4,671 million (DM 4,997 million last year). Also shown here were receivables derived from the business activities of finance and leasing companies.

The first-time inclusion of MBB affected receivables and other assets with approx. DM 1.3 billion and DM 0.9 billion, respectively.

**( 9) Securities**

In millions of DM	1989	1988
Treasury stock	116	166
Other securities	5,900	5,113
	6,016	5,279

Daimler-Benz AG held 313,579 shares of treasury stock with a par value of DM 16 million (= 0.7 % of total outstanding share capital). Other securities largely pertained to fixed-interest-bearing debt instruments.

**(10) Cash**

Cash amounting to DM 2,985 million consisted of deposits in banking institutions, cash on hand, deposit in the Bundesbank (German Federal Reserve Bank), post office accounts, and checks on hand.

**(11) Prepaid Expenses and Deferred Income Taxes**

Deferred income taxes on income-affecting elimination entries amounted to DM 992 million. Deferred income taxes — an asset-side item 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	
Balance 12/31/88	11,323
Dividends paid by Daimler-Benz AG for 1988	( 504)
Capital stock increase of Daimler-Benz AG 1989	1,955
Amount transferred from 1989 net income to retained earnings and minority interests	6,249
Write-off of goodwill	(2,765)
Unappropriated profit of Daimler-Benz AG 1989	560
Difference from currency translation	( 18)
Other changes	166
Balance 12/31/89	16,966

**(13) Capital Stock and Paid-in Capital**

Capital stock and paid-in capital pertained to Daimler-Benz AG. Through the issuance of new shares in November 1989, the capital stock of the company increased by DM 212 million to DM 2,330 million.

The amount contributed in excess of par value in connection with the 1989 capital stock increase ("agio"), and amounting to DM 1,744 million, was credited to paid-in capital.

**(14) Retained Earnings**

Retained earnings comprise retained earnings allocated under statute of DM 160 million, retained earnings allocated for treasury stock of DM 116 million and the other retained earnings of Daimler-Benz AG of DM 7,226 million. Also reflected here are the company's share in the retained earnings and results of operations of consolidated subsidiaries, insofar as they have been earned since belonging to the group. Additionally, this caption takes into account the cumulative results from the elimination of intercompany earnings and from the debt consolidation, as well as losses from currency translations. The amount allocated from consolidated net income to retained earnings amounted to DM 6,249 million (DM 984 million last year).

The amount of DM 1,547 million capitalized for goodwill last year, plus the 1989 newly added goodwill of DM 1,218 million from capital consolidation and equity valuation, a combined total of DM 2,765 million, has been charged to retained earnings. The goodwill amounts added in 1989 were largely in connection with the acquisition of the MBB shares.

**(15) Minority Interests**

The stock ownership of outside third parties in the subsidiaries included in consolidation pertained mostly to MBB, AEG, Mercedes-Benz of South Africa, Dornier and to MTU.

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

When the assets of the provident funds are added to the provisions for old-age pensions, the company's pension obligations are fully covered. The reduction in the provisions by DM 3,538 million to DM 10,086 million had counteracting causes: on the one hand, the first-time inclusion of MBB resulted in an increase of about DM 1.1 billion, after adopting the valuation methods uniformly used by all group companies; on the other hand, the changed method of computing pension obligations resulted in a decrease of approx. DM 4.9 billion.

**(17) Other Provisions**

In millions of DM	1989	1988
Provision for taxes	2,160	1,897
Other provisions	14,464	10,390
	16,624	12,287

The provisions for taxes amounting to DM 1,589 million (DM 1,193 million last year) pertained to a large extent to Daimler-Benz AG for open years pending final assessment.

Apart from existing worldwide warranty obligations, other provisions take into account, above all, obligations in the personnel and social area, risks for losses inherent in pending business transactions, risks arising from contractual liabilities and pending litigations as well as devaluation risks in high-inflation countries.

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

The expansion of consolidated companies through the inclusion of MBB, after adopting the valuation methods uniformly used by all group companies, accounted for DM 2.3 billion.

(18) **Accounts Payable Trade**

(19) <b>Other Liabilities</b>	1989	of which due			1988	of which due		
		within 1 year	from 1 to 5 years	in more than 5 years		within 1 year	from 1 to 5 years	in more than 5 years
In millions of DM								
Accounts payable trade	5,810	5,713	97	—	4,837	4,731	105	1
Financial liabilities								
Bonds	1,714	—	874	840	1,482	3	801	678
Liabilities to banking institutions	3,438	1,770	1,215	453	3,180	1,553	1,198	429
Notes payable	1,630	1,618	4	8	1,086	1,071	6	9
Other liabilities								
Liabilities to affiliated companies	568	513	48	7	121	73	44	4
Liabilities to related companies	1,184	1,100	80	4	453	252	142	59
Miscellaneous liabilities	4,429	3,854	213	362	3,410	3,115	274	21
of which for taxes DM 1.028 million (DM 670 million in 1988)								
of which for social benefits DM 609 million (DM 566 million in 1988)								
Total other liabilities	12,963				9,732			

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Financial liabilities included DM 4.5 billion in connection with the refinancing of the strongly expanding leasing and sales financing activities for cars and commercial vehicles.

The liabilities to related companies mostly pertained to obligations recorded at MBB in favor of joint venture companies.

The miscellaneous liabilities largely comprised December accruals for wages and salaries as well as tax liabilities.

Liabilities to financial institutions, notes payable, liabilities to related companies, other liabilities, and advance payments received from customers and deducted from inventories, are secured through mortgage conveyance or through assignment of receivables in the total amount of DM 1,228 million.

The changes in the number of companies (due to MBB) included in consolidation affected accounts payable trade and other liabilities to the tune of DM 0.3 billion and DM 1.6 billion, respectively.

### Commitments and Contingencies

In millions of DM	1989	1988
Collaterals	1,431	688
Discounted notes	130	188
Contractual guarantees	226	149
Pledges for indebtedness of others	10	18

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

Future minimum rental, lease and leasing payments under non-cancelable contracts were as follows:

In millions of DM	
1990	665
1991 to 1994	1,508
Subsequent to 1994	1,935

The other financial commitments, particularly purchase order commitments for capital investments, amounted to DM 3,331 million.

For companies not included in consolidation, we had financial commitments amounting to DM 426 million.

The obligations arising from stock subscriptions and from capital subscriptions in "Closed Corporation" (Section 24 of the GmbH Act) amounted to DM 8 million.

We are jointly and severally liable for certain non-incorporated companies, partnerships and joint venture work groups. In addition, there exist performance contracts and miscellaneous guarantees in connection with ongoing business transactions.



## Notes to Consolidated Statement of Income

### (20) Sales Revenue

In millions of DM	1989	1988
Sales revenue by corporate units:		
Mercedes-Benz	54,969	53,838
AEG	11,852	13,152
DASA	7,489	4,976
Others	2,082	1,529
	76,392	73,495
Sales Revenue by regions:		
Domestic	29,562	29,094
Foreign	46,830	44,401
	76,392	73,495

Breakdown of foreign sales:		
EC countries	16,912	14,821
Other European countries	4,515	4,240
North America	13,032	11,817
Latin America	3,790	4,899
Other countries	8,581	8,624

### (21) Increase in Inventories and Other Capitalized In-House Output

In millions of DM	1989	1988
Increase in inventories of finished goods and of work in process, including parts	2,929	1,290
Other capitalized in-house output	1,231	852
	4,160	2,142

The increase of approx. DM 2.0 billion over the previous year was largely due to the change in the valuation of finished goods and work in process inventories.

### (22) Other Operating Income

The income amount included in this caption for the dissolution of provisions totaled DM 5,518 million and pertained, on the one hand, to the dissolution amount resulting from the adjustment of the pension provisions to the computation method allowed under the tax law, and on the other hand, largely to the deletion of potential losses and to the reduction of planned capital projects for change-over, alterations and maintenance. Additional income was derived from exchange profits in connection with ongoing purchase and payment transactions, mostly earned abroad, from costs charged to third parties, from tax refunds, from security sales, and from rentals and leases. The reduction of the lump-sum allowance for doubtful accounts contributed DM 24 million. Profits from sale of capital assets amounted to DM 54 million.

DM 5,708 million of other operating income was attributable to prior years.

### (23) Purchases of Goods and Services

In millions of DM	1989	1988
Cost of raw materials and manufacturing supplies, and of goods purchased for resale	35,987	34,859
Cost of services purchased	3,565	2,787
	39,552	37,646

When measured against total output of DM 80,552 million (DM 75,637 million in 1988), the ratio of purchased goods and services amounted to 49 % (50 % in 1988).

### (24) Personnel Expenses/Employment

In millions of DM	1989	1988
Wages and salaries	18,864	17,846
Social levies and expenses for old-age pensions	4,335	4,525
	23,199	22,371
Employment (weighted annual average)		
Wage earners	202,120	201,380
Salaried employees	122,899	121,022
Trainees/apprentices	14,856	14,573
	339,875	336,975

Both the increased number of employees and the collective bargaining wage and salary increases were the main reason for the higher wage and salary amounts.

The expenses for old-age pensions were lower on account of the change in the valuation method of pension provisions.

### (25) Amortization of Intangible Assets and Depreciation of Fixed Assets and Leased Vehicles

In millions of DM	1989	1988
Amortization of intangible long-term assets	56	46
Depreciation of fixed assets	3,082	3,028
Depreciation of leased vehicles	1,249	877
	4,387	3,951

The depreciation of fixed assets pertained 50 % to Mercedes-Benz AG. The rise in depreciation of leased vehicles resulted from the increased leasing business of the German and foreign sales financing companies.

#### (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 the difference resulting from the currency translation of income statements of foreign subsidiaries. Losses from valuation adjustments and losses from disposal of fixed and current assets amounted to DM 525 million.

The increase of DM 2,105 million over the previous year was largely due to the special factors and to the structural measures taken during the reporting year in connection with the reorganization.

Overall, DM 63 million was applicable to other years.

#### (27) Net Income from Investments in Related and Associated Companies

In millions of DM	1989	1988
Income received from related companies	16	11
of which from affiliated companies DM 1 million (DM 1 million in 1988)		
Income from pooling agreements	20	2
Income from associated companies	12	2
Losses from pooling agreements	(.)	(1)
	48	14

#### (28) Net Interest Income

In millions of DM	1989	1988
Income from other securities, and from long-term financial assets	25	28
Other interest and similar income	2,022	1,626
Interest and similar expenses	(926)	(637)
of which to affiliated companies DM 13 million (DM 1 million in 1988)		
	1,121	1,017

With liquidity nearly unchanged, interest income was nevertheless higher due to the more favorable interest levels in the countries where liquidity investments were made.

#### (29) Write-Down of Long-Term Financial Assets and of Securities Included in Current Assets

In millions of DM	1989	1988
Write-down of long-term financial assets	80	12
Write-down of securities included in current assets	92	175
	172	187

#### (30) Taxes

In millions of DM	1989	1988
Income Taxes	2,743	2,981
Other Taxes	544	514
	3,287	3,495

The decline in income taxes was largely due to the fact that the currency translation of our Brazilian companies' tax expense was based on year-end rates; in the previous year it was based on average annual rates.

#### (31) Net Income

Consolidated net income of DM 6,809 million has been substantially affected by the changed valuation methods. Tax depreciation of fixed assets and tax-allowable write-downs of current assets have reduced net income only to a small degree. Also, future charges in connection with the latter will not be material.

#### Other Information

Under the assumption that the proposed dividend is ratified by the shareholders at the annual meeting on July 4, 1990, the remunerations paid by the Group companies to the members of the Board of Management and to the Supervisory Board of Daimler-Benz AG amounted to DM 12,985,807 and DM 1,460,444, respectively. Disbursements to former members of the Board of Management of Daimler-Benz AG or their survivors totaled DM 10,757,155. Pension obligations to former members of the Management Board of Daimler-Benz AG or their survivors, amounting to DM 69,653,767 have been provided for. As at December 31, 1989, advances and loans to members of the Board of Management of Daimler-Benz AG amounted to DM 304,098; during the year, DM 507,463 was repaid. Interest averaging 4 % was charged on such advances and loans: the stipulated maturities did not exceed one year.

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## Report of Independent Auditors

The accounting records and the consolidated accounts, which have been audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles, the consolidated accounts give a true and fair view of the assets, liabilities, financial positions and profit and loss of the Daimler-Benz Group. The business review, which summarizes the state of affairs of Daimler-Benz Aktiengesellschaft and that of the Group, is consistent with the accounts of Daimler-Benz Aktiengesellschaft and the consolidated accounts.

Frankfurt am Main, April 11, 1990

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Zielke  
Wirtschaftsprüfer  
(Certified Public Accountant)

Dr. Koschinsky  
Wirtschaftsprüfer  
(Certified Public Accountant)

## Balance Sheet of Daimler-Benz AG

84 ASSETS	Notes	12/31/1989 In Millions of D-Marks	1/1/1989 In Millions of D-Marks	12/31/1988 In Millions of D-Marks
<b>Non-Current Assets</b>				
Intangible Assets	( 1)	6	2	19
Fixed Assets	( 2)	725	428	5,665
Financial Assets	( 3)	15,144	10,016	5,254
		15,875	10,446	10,934
<b>Current Assets</b>				
Inventories	( 4)	-	1	3,947
Receivables from Affiliated Companies	( 5)	2,034	808	2,790
Other Receivables and Other Assets	( 6)	4,985	5,645	7,070
Marketable Securities	( 7)	4,129	3,675	3,675
Cash	( 8)	1,164	682	722
		12,312	10,811	18,204
<b>Prepaid Expenses</b>		.	.	10
		28,187	21,257	29,148
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Stockholders' Equity</b>				
Capital Stock	( 9)	2,330	2,118	2,118
Paid-in Capital	(10)	2,114	370	370
Retained Earnings	(11)	7,502	6,755	6,755
Unappropriated Profit		560	691	691
		12,506	9,934	9,934
<b>Provisions</b>				
Provisions for Old-Age Pensions and Similar Obligations	(12)	5,701	5,276	8,026
Other Provisions	(13)	2,283	1,957	6,744
		7,984	7,233	14,770
<b>Liabilities</b>				
Accounts Payable to Affiliated Companies	(14)	7,242	232	221
Other Liabilities	(15)	455	3,858	4,203
		7,697	4,090	4,424
<b>Deferred Credits</b>		.	.	20
		28,187	21,257	29,148

## Statement of Income of Daimler-Benz AG

	Notes	1989 In Millions of D-Marks	1988 In Millions of D-Marks
<b>Income from Affiliated and Related Companies</b>	(16)	<b>4,151</b>	<b>279</b>
Net Interest Income	(17)	137	722
Other Operating Income	(18)	704	636
Personnel Expenses of which for old-age pension DM 27 million (DM 713 million prior year)	(19)	( 365)	(12,309)
Amortization of Intangible Assets and Depreciation allowances of Fixed Assets	(20)	( 170)	( 1,772)
Write-Downs of Financial Assets and of Marketable Securities	(21)	( 138)	( 172)
Other Operating Expenses	(22)	( 1,051)	( 3,877)
Sales Revenue		-	41,729
Increase in Inventories and of Capitalized In-House Output		-	251
Purchases of Goods and Services		-	(21,897)
Results from Ordinary Business Activities		3,268	3,590
Income Taxes	(23)	( 1,970)	( 1,979)
Other Taxes	(23)	( 178)	( 229)
<b>Net Income</b>	(24)	<b>1,120</b>	<b>1,382</b>
Transfer to Retained Earnings		( 560)	( 691)
<b>Unappropriated Profit</b>		<b>560</b>	<b>691</b>



## Statement of Non-Current Assets of Daimler-Benz AG

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	Aquisition/Self-Construction Costs					12/31/89
	1/1/89	Transfer MBAG	Additions	Reclassifications	Disposals/Retirements	
In Millions of DM						
<b>Intangible Assets</b>	<b>53</b>	<b>( 44)</b>	<b>6</b>	<b>.</b>	<b>2</b>	<b>13</b>
<b>Fixed Assets</b>						
Land, Land Rights, and Buildings Including Buildings on Land Owned by Others	6,063	( 5,920)	106	227	9	467
Technical Equipment and Machinery	10,582	(10,564)	26	5	.	49
Other Facilities, Factory and Office Equipment	6,772	( 6,563)	199	20	8	420
Advance Payments Relating to Plants and Equipment, Construction in Progress	1,338	( 1,049)	142	(252)	-	179
	<b>24,755</b>	<b>(24,096)</b>	<b>473</b>	<b>.</b>	<b>17</b>	<b>1,115</b>
<b>Financial Assets</b>						
Investments in Affiliated Companies	5,690	4,834	5,981	131	990	15,646
Loans to Affiliated Companies	341	( 225)	160	-	13	263
Investments in Related Companies	388	-	39	(131)	3	293
Loans to Related Companies	7	.	-	-	3	4
Investments in Securities	263	-	11	-	-	274
Other Long-Term Receivables	12	( 7)	-	-	-	5
	<b>6,701</b>	<b>4,602</b>	<b>6,191</b>	<b>-</b>	<b>1,009</b>	<b>16,485</b>
<b>Total Non-Current Assets</b>	<b>31,509</b>	<b>(19,538)</b>	<b>6,670</b>	<b>-</b>	<b>1,028</b>	<b>17,613</b>

1/1/89	Depreciations, Amortizations, Write-Downs					Net Book Values	
	Transfer MBAG	Current Year	Reclassi- fications	Disposals/ Retirements	12/31/89	12/31/89	12/31/88
<b>38</b>	<b>(31)</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>15</b>
3,553	( 3,518)	37	-	6	66	401	2,510
9,420	( 9,404)	15	-	.	31	18	1,162
6,097	( 5,917)	116	-	3	293	127	675
20	( 20)	-	-	-	-	179	1,318
<b>19,090</b>	<b>(18,859)</b>	<b>168</b>	<b>-</b>	<b>9</b>	<b>390</b>	<b>725</b>	<b>5,665</b>
991	( 4)	-	87	10	1,064	14,582	4,699
151	( 151)	13	-	-	13	250	190
242	-	54	(87)	3	206	87	146
.	.	-	-	-	-	4	7
56	-	.	-	-	56	218	207
7	( 6)	1	-	-	2	3	5
<b>1,447</b>	<b>( 161)</b>	<b>68</b>	<b>-</b>	<b>13</b>	<b>1,341</b>	<b>15,144</b>	<b>5,254</b>
<b>20,575</b>	<b>(19,051)</b>	<b>238</b>	<b>-</b>	<b>24</b>	<b>1,738</b>	<b>15,875</b>	<b>10,934</b>

## Principles and Methods

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The 1989 financial statements of Daimler-Benz AG, for the first time, mirror the activities of an executive holding company. The structure of the balance sheet, and particularly of the statement of income, as well as the substance of the individual financial statement items have changed as compared to the previous year, often substantially. A comparison between 1989 and 1988 is thus, essentially, impossible. The presentation of the previous year's figures was made pursuant to Section 265, Subsection 2, of the Commercial Law.

The items summarized in the balance sheet and in the statement of income are separately shown in the supplement. The figures are stated in millions of D-Marks and take into account the appropriation of net income.

### Balance Sheet and Valuation

Apart from additions to intangible assets and to fixed assets, which, beginning in 1989, are treated according to tax-allowable valuation methods, Daimler-Benz AG continued its accounting and valuation methods without change. The change in the valuation method for intangible assets and for fixed assets, which has not materially affected net income, was made in the consolidated financial statements in harmony with national and international accounting practice.

Intangible assets and fixed assets are valued at acquisition costs, which are reduced by scheduled amortization or depreciation. The opportunities for special tax-deductible depreciation allowances were fully utilized, i.e. in connection with Section 7d of the Income Tax Act, Section 82d of the Income Tax Regulation (environmental protection, and research and development investments) and Section 6b of the Income Tax Act.

Scheduled fixed assets depreciation allowances at Daimler-Benz AG were calculated beginning with January 1, 1989 generally using the following useful lives: 20 to 50 years for buildings, 10 to 20 years for site improvements, 3 to 10 years for technical equipment and machinery, other facilities, tools and furniture and fixtures. Fixed asset additions prior to December 31, 1988 are depreciated as heretofore, using at times shorter useful lives.

Beginning with additions in 1989, movable property with a useful life of four years or more is depreciated at 30 % (33 1/3 % previously), using the declining-balance method. We change from the declining-balance method to the straight-line method of calculating depreciation when the equal distribution of the remaining net book value over the remaining useful life leads to higher depreciation amounts.

Effective January 1, 1989, fixed assets additions during the first six months are depreciated using the full annual rate and fixed assets additions during the second six months are depreciated using half the annual rate (previously the full annual rate). Assets of little value are expensed in the year of acquisition.

Investments in affiliated and related companies, and in other long-term financial assets are valued at the lower of cost or market; non-interest bearing or low-interest bearing long-term receivables are valued at their present value.

Receivables — if non-interest bearing — are reduced to their present value at the balance sheet date, 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 risks inherent in receivables.

Treasury stock is valued at the prospective issue price to employees. Marketable securities are valued at the lower of cost or market.

Provisions for old-age pensions and similar obligations — in accordance with the contract on re-formation and contribution to capital between Daimler-Benz AG and Mercedes-Benz AG — have been made for pension claims of eligible employees and for those retiring on or after July 1, 1989 of both companies. The obligations for old-age pension benefits are actuarially determined using the Entry Age Actuarial Cost Method on the basis of an assumed interest rate of 3.5 %. In computing the provision for old-age benefits, we have included 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 reasonable business judgment. Liabilities are shown at their repayment amounts.

### Currency Translation

Foreign currency receivables are translated in the financial statements at the bid price on the day they are recorded or at the 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 at the spot rate on the balance sheet date if higher.

## Notes to Financial Statements of Daimler-Benz AG

The balance sheets as at December 31, 1989 and December 31, 1988 are not comparable, because the previous year's figures are still inclusive of the asset and liability items pertaining to the vehicle business. Comparable are, however, the balance sheets as at December 31, 1989 — and after the drop-down of Mercedes-Benz AG — the balance sheet as at January 1, 1989, which we show in addition to the legally prescribed previous year's figures.

### ( 1 ) Intangible Assets

Intangible assets amounting to DM 6 million comprised mostly acquired EDP software. The goodwill amount relating to the research institutes acquired from AEG Aktiengesellschaft, was charged to income as allowed under Section 255, Subsection 4, of the Commercial Code.

### ( 2 ) Fixed Assets

Fixed assets totaling DM 725 million pertained largely to the research centers in Ulm and Frankfurt, the new administration building in Stuttgart-Mohringen and the Lammerbuckel training center situated in the Schwabische Alb hills.

Scheduled depreciation and tax depreciation amounted to DM 108 million and DM 60 million, respectively.

Leasehold rights on land have been registered in favor of Daimler-Benz Unterstützungskasse GmbH (Provident Fund) which erected the Lammerbuckel trainingcenter.

### ( 3 ) Long-Term Financial Assets

The investments in affiliated and related companies amounted to DM 14,669 million. Additions, of DM 6,020 million pertained most of all to cash and property contributions at Deutsche Aerospace AG, also the property contribution at Daimler-Benz of North America Holding Company Inc., and the newly formed Daimler-Benz Technologie Dienstleistungsgesellschaft mbH.

The listing of the shareholdings of Daimler-Benz AG will be filed with the registry office at county court house in Stuttgart.

Because of increased market values, investments in securities should have been written up by DM 10 million in accordance with the value appreciation doctrine (Section 280 of the Commercial Code), but this was not done for tax reasons.

Unscheduled write-downs of financial assets, amounting to DM 68 million, pertained to write-downs of our Iranian investment and the Seastarinvestment as well as the present value adjustment of non-interest bearing loans to Daimler-Benz Mitarbeiter Wohnfinanz GmbH, Stuttgart (housing loans to employees).

### ( 4 ) Inventories

In millions of DM	12/31/89	1/1/89	12/31/88
Raw materials and manufacturing supplies	—	1	962
Work in process	—	—	1,039
Finished goods, and goods purchased for resale	—	—	1,946
	—	1	3,947

Inventories in the amount of DM 3,946 million were transferred to Mercedes-Benz AG, as they exclusively serve the vehicle business.

### ( 5 ) Receivables from Affiliated Companies

### ( 6 ) Other Receivables and Other Assets

In millions of DM	12/31/89	1/1/89	12/31/88
Receivables from affiliated companies	2,034	808	2,790
of which maturing after one year	1,200		952
Receivables from related companies	848	539	665
of which maturing after one year	209		348
Receivables from sale of goods and services	7	1,010	2,199
of which maturing after one year	—		128
Other Assets	4,130	4,096	4,206
of which maturing after one year	2,792		3,182
Total other receivables and other assets	4,985	5,645	7,070

Receivables from affiliated companies mostly pertained to loans extended to domestic subsidiaries.

About DM 445 million of the receivables from related companies pertained to credit balances at financial institutions.

Other assets included investments of liquid funds in debt instruments not traded on stock exchanges; they amounted to DM 3,841 million. Also shown here were interest receivables and tax refund claims.

**( 7 ) Securities**

In millions of DM	12/31/89	1/1/89	12/31/88
Treasury stock	116	166	166
Other securities	4,013	3,509	3,509
	4,129	3,675	3,675

**( 7 ) Securities**

In millions of DM	12/31/89	1/1/89
Treasury stock	116	166
Other securities	4,013	3,509
	4,129	3,675

In June of 1989 we sold to our employees 136,173 shares (par value DM 7 million = 0.3 % of total outstanding share capital) at a preferential price of DM 331 for each share (in the event one share was purchased) or DM 386 for each share (in the event two shares were purchased). On the balance sheet date, we held 313,579 shares of treasury stock (par value DM 16 million = 0.7 % of total outstanding capital stock) that were purchased in the previous year.

**( 8 ) Cash**

Cash amounting to DM 1,164 million pertained almost exclusively to deposits in banking institutions; in addition, we held small cash balances as well as deposits at the Bundesbank (Federal Reserve Bank) and in post office accounts. 1989

( 9 ) Capital Stock	46,548,840 votes	2,328
Preferred stock	43,920 votes	2
in those special cases of Section 17, of the bylaws	1,317,600 votes	
		2,330

The basic share capital — through utilization of approved capital stock — was increased at the end of 1989 by DM 212 million to DM 2,330 through the issuance of stock for cash on the basis of one share for 10 shares held, at an issue price of DM 460 a share. Of the approved share capital totaling DM 500 million as approved by the shareholders at their meeting on July 2, 1986, DM 112 million still is available until June 30, 1991, after having used partial amounts of DM 176 million and DM 212 million at the end of 1986 and at the end of 1989, respectively. 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 owns more than 25 % of our capital stock.

**(10) Paid-in Capital**

Paid-in Capital includes the "agio" (net proceeds in excess of par value) from the capital stock increase at the end of 1989, in the amount of DM 1,737 million, and from previous capital stock increases as well as from rights issues not taken up by shareholders.

**(11) Retained Earnings**

In millions of DM	
Allocated under statute: Balance 12/31/89 unchanged from balances as at 12/31/88, 1/1/89	160
Allocated for treasury stock:	
Balance 12/31/88, 1/1/1989	166
Transfer to unallocated retained earnings	( 50)
Balance 12/31/89	116
Unallocated retained earnings:	
Balance 12/31/88, 1/1/89	6,429
Transfer from 1988 unappropriated surplus pursuant to shareholders' meeting resolution of 6/28/89	187
Transfer from net income	560
Transfer from retained earnings	50
Balance 12/31/89	7,226
	7,502

**(12) Provisions for Old-Age Pensions and Similar Obligations**

The direct and indirect pension obligations of Daimler-Benz AG and of Mercedes-Benz AG are actuarially computed on the basis of the pension rules valid since January 1, 1987. The pension provisions of both companies rose to DM 8.5 billion (DM 8 billion previous year). The assets of the Daimler-Benz Unterstützungskasse GmbH (Provident Fund) were unchanged and amounted to DM 3 billion. The pension obligations of Daimler-Benz AG and of Mercedes-Benz AG are thus fully covered.

**(13) Other Provisions**

In millions of DM	12/31/89	1/1/89	12/31/88
Provision for taxes	1,589	1,193	1,193
Other Provisions	694	764	5,551
	2,283	1,957	6,744

The provisions for taxes pertained largely to open years pending final assessment to the tax portion with respect to the special equity reserve reclassified in 1987, and to the obligations for employee jubilee payments only temporarily tax deductible.

The other provisions, whose main portion was transferred to Mercedes-Benz AG in connection with the corporate restructuring of the vehicle business, take into account, above all, risks arising from contractual liabilities and pending litigations, obligations in the personnel and social benefits area as well as risks for losses inherent in pending business transactions. In addition, provisions were made for maintenance expenditures planned for the reporting year, but which cannot be made until the following year, as well as for expenditures which are based on approved change-over, alteration and maintenance projects.



**(14) Liabilities to Affiliated Companies****(15) Other Liabilities**

In millions of DM	12/31/89	1/1/89	12/31/88
Liabilities to affiliated companies	7,242	232	221
of which due within one year	7,242		221
Liabilities to financial institutions	25	29	29
of which due within one year	4		4
of which due after more than 5 years	5		9
Advance payments received from customers	9		122
of which due within one year	9		122
Liabilities from the purchase of goods and services	236	2,502	2,502
of which due within one year	236		2,502
Liabilities to related companies	3	15	15
of which due within one year	3		15
Other Liabilities	182	1,312	1,535
of which due within one year	142		1,461
of which due after more than 5 years	8		
of which for taxes DM 49 million (1988 DM 147 million)			
of which for social benefits DM 7 million (1988 DM 311 million)			
Total other liabilities	455	3,858	4,203

The liabilities to affiliated companies pertained largely to Mercedes-Benz AG, AEG Aktiengesellschaft and Deutsche Aerospace AG who, within the framework of the centralized finance and liquidity management, have transferred their liquidity to Daimler-Benz AG.

Liabilities to financial institutions were reduced to DM 25 million through scheduled principal repayments. In 1990, such repayments will amount to DM 4 million.

At the time the vehicle business was restructured, liabilities for the purchase of goods and services remained at Daimler-Benz AG. They have since been paid.

The other liabilities include — apart from obligations arising from amounts withheld from employees for income taxes and social security — mostly loans extended by employees to the company in connection with the capital formation program, and obligations arising from property transaction.

**Other Financial Commitments**

These commitments total DM 557 million; those to affiliated companies amount to DM 120 million.

The obligations arising from stock subscriptions and from capital subscriptions in "Close Corporations (Section 24 of the GmbH Act) amounted to DM 4 million. We are jointly and severally liable for two non-incorporated companies which have profit and loss pooling agreements with controlling entities, and for one partnership by reason of an ownership interest in it.

**Commitments and Contingences**

In millions of DM	12/31/89	1/1/89	12/31/88
Payment guarantees in favor of creditors from the 1986 DM bond issued by Daimler-Benz International Finance B.V., Utrecht, Netherlands	500	500	500
US-Dollarbond 1989/1999	170	—	—
Liabilities from contractual guarantees, largely from joint liability for pension obligations of Mercedes-Benz AG	2,790	2,735	23
Pledges for domestic and foreign related companies	381	337	337
Drafts discounted	—	12	12

A minimum dividend guarantee for 1990 and later exists in favor of co-owners of Dornier GmbH that cannot reasonably be estimated. A non-estimative dividend guarantee was assumed in favor of outside shareholders of AEG Aktiengesellschaft, Berlin and Frankfurt am Main.

## Notes to Statement of Income of Daimler-Benz AG

The statements of income for 1989 and 1988 are not comparable as the previous year's figures still contain the income and expense items of the vehicle business that was separated effective January 1, 1989.

### (16) Income from Affiliated and Related Companies

In millions of DM	1989	1988
Income from pooling agreements	1,031	—
of which:		
Mercedes-Benz AG	980	—
Deutsche Aerospace AG	46	—
Income from tax allocations	2,648	—
of which:		
Mercedes-Benz AG	2,551	—
Deutsche Aerospace AG	82	—
Dividends received	466	301
of which:		
Mercedes-Benz do Brasil S.A., Sao Bernardo do Campo	222	108
Daimler-Benz Holding AG, Zürich	126	123
Income from related companies	6	13
Losses from pooling agreements	( )	13
	4,151	279

### (17) Net Interest Income

In millions of DM	1989	1988
Income from other securities and from long-term financial assets	27	23
of which from affiliated companies	10	6
Other interest and similar income	681	742
of which from affiliated companies	57	111
Interest and similar expenses	(571)	(43)
of which to affiliated companies	(559)	(18)
	137	722

Interest expenses comprise credits to Mercedes-Benz AG, AEG Aktiengesellschaft and Deutsche Aerospace AG in the amount of DM 536 million for their liquidity transfers to Daimler-Benz AG within the framework of the centralized finance and liquidity management at the holding company.

### (18) Other Operating Income

This summary caption comprises, above all, income from charges for intercompany services and completed research and development work (totaling DM 491 million) as well as income from the dissolution of provisions (DM 182 million).

Altogether, DM 201 million pertained to prior years.

### (19) Personnel Expenses/Employment

In millions of DM	1989	1988
Wages and salaries	304	9,983
Social levies	34	1,613
Expenses for old-age pensions	440	—
of which charged to Mercedes-Benz AG	(413)	27
	365	12,309
Employment (weighted annual average)	Number	Number
Wage earners	315	115,891
Salaried employees	3,081	45,741
Apprentices/trainees	65	9,070
	3,461	170,702

The 1989 personnel expenses reflect the 2.5 % union-negotiated wage and salary increase, and the increase in the taxable wage base for social security contributions. Expenses for old-age pensions for 1989 — together with the amount of DM 611 million shown at Mercedes-Benz AG — totaled DM 638 million.

The employment figure pertains largely to the area of research and technology, including information processing.

### (20) Write-Downs of Intangible Assets and of Fixed Assets

Depreciation allowances of DM 170 million pertained with DM 148 million to the fixed asset additions at the research center and the new administrative building in Stuttgart-Möhringen.

### (21) Write-Downs of Long-Term Financial Assets and of Securities Included in Current Assets

About one-half of the write-down amount of DM 138 million pertained to long-term financial assets, the other half to securities.

**(22) Other Operating Expenses**

This summary caption comprises — apart from additions to provisions that must be classified here — above all, rental and lease expenses, administrative and maintenance expenses, as well as office supplies, and light and power. In addition, expenses incurred in connection with the acquisition of the AEG research institutes are classified here. Furthermore, this caption comprises the interest portion from additions to the pension provisions, which was charged to Mercedes-Benz AG and was shown there under old-age pension expense, but was again credited by Daimler-Benz AG.

Altogether DM 3 million pertained to prior years.

**(23) Taxes**

Daimler-Benz AG, as the holding company, is also liable for taxes of its affiliated companies with whom it has management and profit and loss sharing agreements. These are mainly Mercedes-Benz AG und Deutsche Aerospace AG; the profit and loss sharing agreement with AEG Aktiengesellschaft will not become effective until 1992. The income resulting from the relevant tax allocations are shown under net income from investments in affiliates.

**(24) Net Income**

Half of the 1989 net income amount of DM 1,120 was allocated to retained earnings, the other half to unappropriated profit. DM 555 million of the unappropriated profit will be distributed to stockholders, and DM 5 million will be carried forward to 1990.

Tax allowable depreciation of fixed assets did not materially affect net income. Future negative effects on net income will not be material.

**Other Information/Boards**

Under the assumption that the proposed dividend is ratified by the shareholders at the annual meeting on July 4, 1990, the remunerations paid to the Board of Management and the Supervisory Board amounted to DM 9,741,445 and DM 1,460,444, respectively. Disbursements to former members of the Board of Management or their survivors totaled DM 8,933,394. Pension obligations for former members of the Management Board or their survivors amounting to DM 69,653,767 have been provided for at Mercedes-Benz AG, in accordance with the contract on re-formation and contribution to capital. As at December 31, 1989, advances and loans to members of the Board of Management amounted to DM 304,098; during the year, DM 507,463 was repaid. Interest averaging 4 % was charged on such advances and loans: the stipulated maturities did not exceed one year.

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

## Proposal for the Allocation of Unappropriated Profit

The annual financial statements of Daimler-Benz AG as of December 31, 1989, show an unappropriated profit of DM 560,022,000. 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	554,823,132
Dividend amount	554,896,332
Transfer to unallocated retained earnings	5,125,668
Unappropriated profit	560,022,000

Stuttgart-Möhringen, March 30, 1990

The Board of Management

*Heute* *nie*

*Dire* *für* *Höring*

*Werner* *[Signature]* *Amund*

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## Report of Independent Auditors

The annual accounts, which have been audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles, the annual accounts give a true and fair view of the assets, liabilities, financial position and profit and loss of Daimler-Benz Aktiengesellschaft. The business review report, which summarizes the state of affairs of Daimler-Benz Aktiengesellschaft and that of the Group, is consistent with the annual accounts of Daimler-Benz Aktiengesellschaft and the consolidated accounts.

Frankfurt am Main, April 11, 1990

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Müller  
Wirtschaftsprüfer  
(Certified Public Accountant)

Dr. Koschinsky  
Wirtschaftsprüfer  
(Certified Public Accountant)



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## Report of the Supervisory Board



In the four 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 automotive company to a high-technology concern, the restructuring of the group organization and the closer adherence in the balance sheet to accepted international practice. Moreover, we dealt with employment trends, results of operations and medium and long-range corporate plans including capital spending policy. Furthermore, we 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 for Daimler-Benz AG, which appears for the first time in the balance sheet as a holding company, the financial statements and the business review report combined for the group and the Daimler-Benz AG, together with the recommendations for the payment of dividends. The financial statements of Daimler-Benz AG and of the group as of December 31, 1989, including the business review 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 25, 1990, 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 Stockholders' Meeting arising from the changes of the group's structure. The financial statements, the business review report and the external auditor's report had been available to the Supervisory Board.

Dr. Alfred Herrhausen, the Chairman of the Supervisory Board of Daimler-Benz AG, was the victim of an abominable assassination on November 30, 1989 in Bad Homburg. Alfred Herrhausen, who had belonged to the Supervisory Board since 1976, played an important role with his perspicacious

strategic approach in preparing Daimler-Benz for the new challenges of the world economy. In his four years of work at the head of the Supervisory Board, he strongly influenced restructuring of the company towards an integrated technology group, and constantly promoted its development.

The tragedy of Alfred Herrhausen's assassination is all the more lamentable since it would be virtually impossible to name another representative of industry who was so consistently concerned with explaining and displaying to the public the reasons and motives for economic actions with such a high degree of personal commitment. He was a warm-hearted man, a charismatic personality and a German patriot. We have lost a great friend, to whom we are deeply indebted.

In accordance with clause 7, sub-clause 2 of the memorandum and articles of association of our company, Mr. Hilmar Kopper, member of the Board of Management of Deutsche Bank AG, was nominated to the Supervisory Board of Daimler-Benz AG in place of Dr. Alfred Herrhausen. Since then (March 7, 1990) he has been elected Chairman.

On March 7, 1990, Mr Herbert Lucy, the Chairman of the Joint Labor Council of Daimler-Benz AG, resigned his membership on the Supervisory Board, which he had belonged to since 1965, and in which he had held the post of Deputy Chairman since 1978. He had worked for Daimler-Benz since 1944,

and for the Labor Council since 1965. Herbert Lucy was one of the most experienced, pragmatic labor councillors of the post-war generation. In numerous negotiations he proved himself to be a hard, expert and reliable negotiation partner, who always had the well-being of the company in his immediate field of vision. Over the many years of his activity, he decisively influenced the social climate of our company. A large number of social improvements and pioneering political successes are connected with his name. We would like to take this opportunity to express our acknowledgement and gratitude to Mr. Lucy.

Mr. Karl Feuerstein, the Labor Council Chairman for the Mannheim plant, has been appointed a member of the Supervisory Board, to replace Mr. Lucy, by the Stuttgart Court of Registration at the suggestion of the Daimler-Benz Corporation Labor Council.

With effect from July 1, 1990 Dr. Manfred Gentz, member of the Board of Management responsible for personnel, will become Chairman of the Board of Management of the fourth corporate unit "Daimler-Benz InterServices (debis) AG", which will be newly created as of that date, within the Daimler-Benz group.

Also with effect from July 1, 1990, Dr. Hans-Wolfgang Hirschbrunn has been appointed deputy member of the Board of Management of Daimler-Benz AG; as director of labor relations he will take over the personnel sector from Dr. Gentz.

Stuttgart-Untertürkheim  
April 1990

The Supervisory Board



Chairman

# Daimler-Benz Highlights

	1980	1981	1982	1983	1984	1985	1986	1987 <sup>1)</sup>	1988	1989
<b>Number of employees (at year-end)</b>										
<b>Daimler-Benz Group</b>	<b>183,532</b>	<b>188,039</b>	<b>185,687</b>	<b>184,877</b>	<b>199,872</b>	<b>231,077</b>	<b>319,965</b>	<b>326,288</b>	<b>338,749</b>	<b>368,226</b>
of which: domestic	146,323	149,096	149,118	151,273	158,043	186,652	257,538	262,658	268,277	298,199
foreign	37,209	38,943	36,569	33,604	41,829	44,425	62,427	63,630	70,472	70,027
Mercedes-Benz Division	-	-	-	-	-	-	-	-	-	223,219 <sup>2)</sup>
AEG Division	-	-	-	-	-	-	78,199	80,499	89,585	77,722 <sup>2)</sup>
Deutsche Aerospace Division	-	-	-	-	-	-	-	-	-	62,959 <sup>2)</sup>

## Major Balance Sheet and Income Figures - in millions of DM -

<b>Daimler-Benz Group</b>										
Non-Current Assets	4,480	5,791	6,958	7,743	8,228	10,209	10,857	12,202	17,342	20,084
Current Assets	12,999	14,637	15,996	17,084	20,398	25,571	31,168	34,336	34,589	42,653
Capital Stock	1,359	1,529	1,529	1,699	1,699	1,699	2,118	2,118	2,118	2,330
Reserves <sup>3)</sup>	3,837	4,546	5,173	5,848	6,831	8,070	7,742	6,779	8,077	13,309
of which: Paid-in Capital	-	-	-	-	-	-	368	370	370	2,114
Retained Earnings <sup>3)</sup>	-	-	-	-	-	-	7,374	6,409	7,707	11,200
Minority Interests in Subsidiaries	44	50	59	76	143	330	1,251	767	626	767
<b>Stockholders' Equity<sup>4)</sup></b>	<b>5,196</b>	<b>6,075</b>	<b>6,703</b>	<b>7,547</b>	<b>8,530</b>	<b>9,769</b>	<b>11,111</b>	<b>9,663</b>	<b>10,819</b>	<b>16,411</b>
in % of total assets	29,7	29,7	29,2	30,4	29,8	27,3	26,4	20,8	20,8	26,2
in % of non-current assets <sup>5)</sup>	116,0	104,9	96,3	97,5	103,7	95,7	102,3	97,7	79,2	109,1
Long and medium-term liabilities <sup>6)</sup>	4,933	5,710	6,768	7,534	9,452	11,201	17,696	22,744	24,485	24,331
<b>Stockholders' Equity Plus Long and Medium-Term Liabilities</b>	<b>10,129</b>	<b>11,785</b>	<b>13,471</b>	<b>15,081</b>	<b>17,982</b>	<b>20,970</b>	<b>28,807</b>	<b>32,407</b>	<b>35,304</b>	<b>40,742</b>
in % of non-current assets <sup>5)</sup>	226,1	203,5	193,6	194,8	218,5	205,4	265,3	327,6	258,4	270,9
<b>Balance Sheet Total</b>	<b>17,479</b>	<b>20,428</b>	<b>22,954</b>	<b>24,827</b>	<b>28,626</b>	<b>35,780</b>	<b>42,025</b>	<b>46,538</b>	<b>51,931</b>	<b>62,737</b>
<b>Total Investments<sup>7)</sup></b>	<b>2,110</b>	<b>3,076</b>	<b>3,598</b>	<b>3,519</b>	<b>3,523</b>	<b>5,492</b>	<b>5,580</b>	<b>3,736</b>	<b>7,007</b>	<b>7,620</b>
in % of sales	6,8	8,4	9,2	8,8	8,1	10,5	8,5	5,5	9,5	10,0
of which: in fixed assets and intangible assets	2,057	3,033	3,427	3,464	3,374	4,014	5,385	3,834	6,628	7,242
domestic	1,663	2,233	3,004	3,047	2,166	2,753	3,891	3,392	6,038	6,459
foreign	394	800	423	417	1,208	1,261	1,494	442	590	783
in financial assets (net)	53	43	171	55	149	1,478	195	- 98	379	378
<b>Total Depreciation<sup>8)</sup></b>	<b>1,447</b>	<b>1,688</b>	<b>2,273</b>	<b>2,574</b>	<b>2,828</b>	<b>3,275</b>	<b>3,361</b>	<b>2,560</b>	<b>3,086</b>	<b>3,218</b>
of which: of fixed assets and intangible assets	1,434	1,633	2,265	2,567	2,825	3,242	3,239	2,505	3,074	3,138
domestic	1,272	1,379	1,975	2,292	2,342	2,514	2,575	2,192	2,708	2,620
foreign	162	254	290	275	483	728	664	313	366	518
of financial assets	13	55	8	7	3	33	122	55	12	80
<b>Cash flow</b>	<b>2,907</b>	<b>3,523</b>	<b>4,090</b>	<b>4,554</b>	<b>5,562</b>	<b>5,012</b>	<b>6,214</b>	<b>6,626</b>	<b>6,130</b>	<b>5,991</b>
in % of sales	9,4	9,6	10,5	11,4	12,8	9,6	9,5	9,8	8,3	7,8

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

- <sup>1)</sup> Figures in accordance with the Accounting Standards Act; prior year adjusted accordingly.
- <sup>2)</sup> Figures according to the new structure of the Group.
- <sup>3)</sup> Including allocations authorized by the shareholders at the Annual Meeting and profit carried forward as unappropriated surplus.
- <sup>4)</sup> Excluding dividend; including equity portion contained in equity reserve.
- <sup>5)</sup> Excluding leased vehicles (from 1987 on).
- <sup>6)</sup> Long and medium-term provisions as well as long and medium-term liabilities.
- <sup>7)</sup> Intangible assets, fixed assets, financial assets (net) and cost of investments in excess of book value at acquisition (to 1986).
- <sup>8)</sup> From 1985 on newly defined.
- <sup>9)</sup> Dornier consolidated from 7/1/1985 on, MTU from 4/1/1985 on.
- <sup>10)</sup> Dividend plus bonus.
- <sup>11)</sup> For our stockholders who are taxable in the Federal Republic of Germany.
- <sup>12)</sup> Allowing for increases in capital stock (retroactive adjustment).

	1980	1981	1982	1983	1984	1985	1986	1987 <sup>1)</sup>	1988	1989
– in millions of DM –										
<b>Sales</b>	<b>31,054</b>	<b>36,661</b>	<b>38,905</b>	<b>40,005</b>	<b>43,505</b>	<b>52,409</b>	<b>65,498</b>	<b>67,475</b>	<b>73,495</b>	<b>76,392</b>
of which: domestic	13,855	13,577	13,316	15,177	14,682	18,706	27,838	28,064	29,094	29,562
foreign	17,199	23,084	25,589	24,828	28,823	33,703	37,660	39,411	44,401	46,830
foreign share in %	55.4	63.0	65.8	62.1	66.3	64.3	57.5	58.4	60.4	61.3
Mercedes-Benz	-	-	-	-	-	-	-	-	-	54,969
of which: Passenger Cars	14,088	16,572	18,722	21,012	23,245	28,549	31,405 <sup>8)</sup>	31,472	31,833	31,865
Commercial Vehicle	15,818	18,862	18,859	17,653	18,367	20,204	17,755 <sup>8)</sup>	19,454	23,063	23,104
AEG	-	-	-	-	-	-	11,070	11,480	13,152	11,852 <sup>2)</sup>
Deutsche Aerospace	-	-	-	-	-	-	-	-	-	7,489 <sup>2)</sup>
Dornier	-	-	-	-	-	1,223 <sup>9)</sup>	2,112	1,589	1,889	-
MTU	-	-	-	-	-	1,971 <sup>9)</sup>	2,770	2,832	3,087	-
<b>Total Output</b>	<b>32,127</b>	<b>37,553</b>	<b>39,730</b>	<b>40,527</b>	<b>44,078</b>	<b>53,775</b>	<b>66,418</b>	<b>69,061</b>	<b>75,637</b>	<b>80,552</b>
Total average annual output per employee (in DM)	176,116	197,949	211,526	219,808	225,572	235,648	207,759	211,996	224,459	237,005
<b>Purchases of goods and services</b>	<b>16,556</b>	<b>19,497</b>	<b>20,047</b>	<b>20,299</b>	<b>22,707</b>	<b>27,245</b>	<b>32,467</b>	<b>33,701</b>	<b>37,646</b>	<b>39,552</b>
<b>Personnel Expenses</b>	<b>9,816</b>	<b>9,993</b>	<b>10,712</b>	<b>10,941</b>	<b>11,598</b>	<b>13,657</b>	<b>19,367</b>	<b>20,670</b>	<b>22,371</b>	<b>23,199</b>
Average annual expense per employee (in DM)	53,809	52,677	57,030	59,344	59,355	59,846	60,581	63,451	66,388	68,257
<b>Results from Ordinary Business Activities</b>										
in % of total output	-	-	-	-	-	-	5.880	5.297	5.197	10.096
in % of total output	-	-	-	-	-	-	8.9	7.7	6.9	12.5
Taxes	1,693	3,091	3,310	3,263	3,027	4,341	4,113	3,515	3,495	3,287
<b>Net Income</b>	<b>1,102</b>	<b>826</b>	<b>921</b>	<b>988</b>	<b>1,104</b>	<b>1,682</b>	<b>1,767</b>	<b>1,782</b>	<b>1,702</b>	<b>6,809</b>
in % of total output	3.4	2.2	2.3	2.4	2.5	3.1	2.7	2.6	2.3	

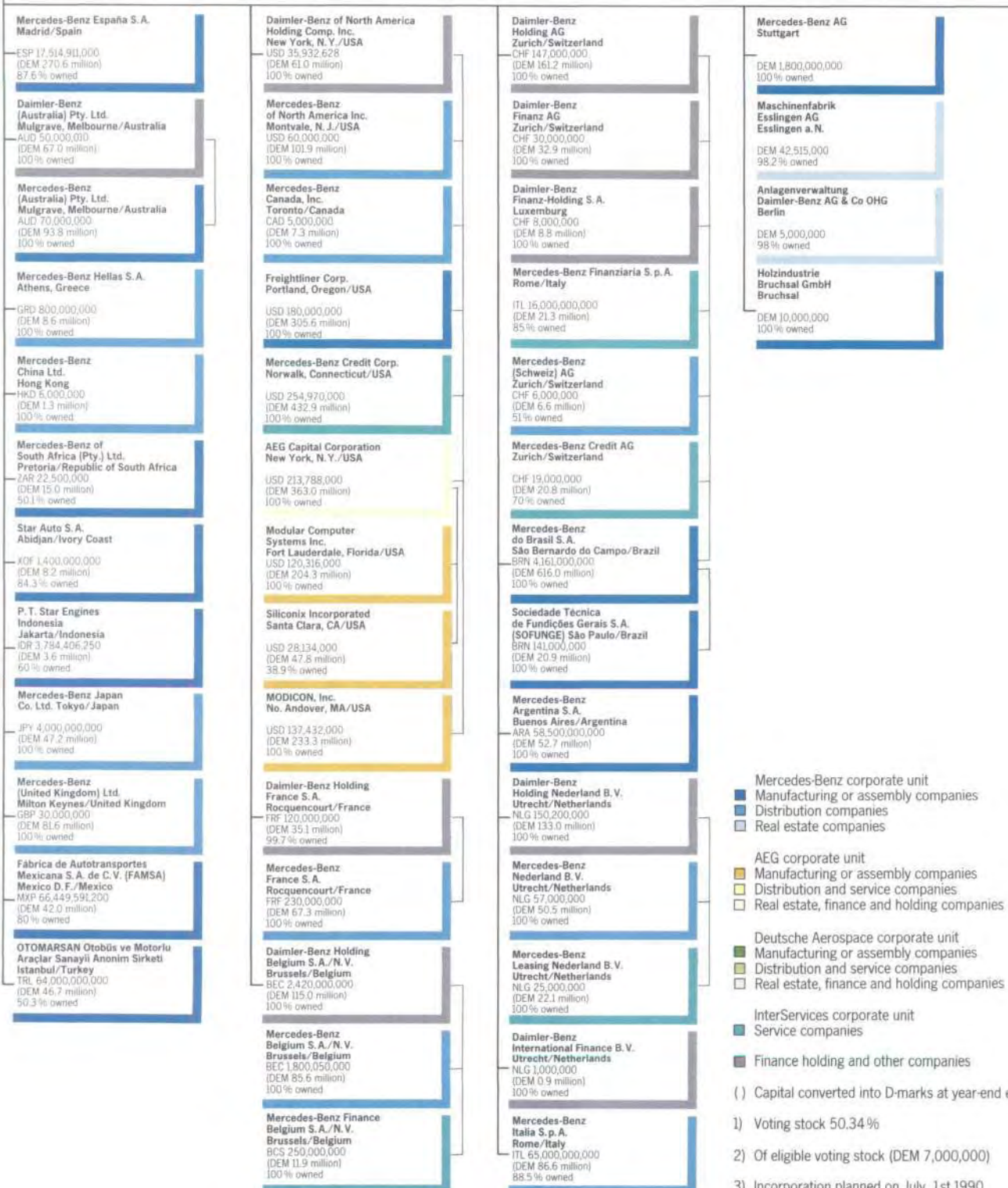
## Daimler-Benz AG

<b>Net Income</b>	<b>570</b>	<b>608</b>	<b>687</b>	<b>710</b>	<b>711</b>	<b>1,252</b>	<b>1,404</b>	<b>1,403</b>	<b>1,382</b>	<b>1,120</b>
<b>Total Dividends (paid respectively proposed)</b>	<b>297</b>	<b>304</b>	<b>350</b>	<b>355</b>	<b>356</b>	<b>491</b>	<b>507</b>	<b>503</b>	<b>504</b>	<b>555</b>
Dividend for each DM 50 par value share (in DM)	10.-+1.- <sup>10)</sup>	10.-	10.50+1.- <sup>10)</sup>	10.50	10.50	12.-+2.50 <sup>10)</sup>	12.-	12.-	12.-	12.-
Tax credit for each DM 50 par value share (in DM) <sup>11)</sup>	6.19	5.62	6.47	5.91	5.91	8.16	6.75	6.75	6.75	6.75
Dividend for each DM 50 par value share adjusted (in DM) <sup>12)</sup>	7.11	7.14	8.21	8.26	8.26	11.41	11.65	11.65	11.65	12.-
Tax credit for each DM 50 par value share adjusted (in DM) <sup>12)</sup>	4.00	4.02	4.62	4.65	4.65	6.42	6.56	6.56	6.56	6.75



# Principal Subsidiaries and Affiliated Companies of Daimler-Benz AG

## Subsidiaries



- Mercedes-Benz corporate unit
  - Manufacturing or assembly companies
  - Distribution companies
  - Real estate companies
- AEG corporate unit
  - Manufacturing or assembly companies
  - Distribution and service companies
  - Real estate, finance and holding companies
- Deutsche Aerospace corporate unit
  - Manufacturing or assembly companies
  - Distribution and service companies
  - Real estate, finance and holding companies
- InterServices corporate unit
  - Service companies
- Finance holding and other companies

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

1) Voting stock 50.34%

2) Of eligible voting stock (DEM 7,000,000)

3) Incorporation planned on July, 1st 1990



**Other  
Affiliated  
Companies**

<b>AEG Aktiengesellschaft Berlin and Frankfurt am Main</b>	DEM 931,171,700 80.2% owned
<b>AEG Olympia Office GmbH Wilhelmshaven</b>	DEM 170,000,000 99.2% owned
<b>AEG Electrocom GmbH Konstanz</b>	DEM 20,000,000 100% owned
<b>AEG Westinghouse Transport-Systeme Beteiligungsgesellschaft mbH Berlin</b>	DEM 131,000,000 80.9% owned
<b>AEG KABEL Aktiengesellschaft Mönchengladbach</b>	DEM 96,000,000 98.3% owned
<b>TELEFUNKEN electronic GmbH Heilbronn</b>	DEM 93,750,000 98% owned
<b>AEG Elektrowerzeuge GmbH Winnenden</b>	DEM 80,000,000 99.75% owned
<b>GEI-Gesellschaft für Elektronische Informationsverarbeitung mbH Aachen</b>	DEM 11,650,000 78.6% owned
<b>AEG Ibérica de Electricidad S. A. Madrid/Spain</b>	ESP 3,800,100,000 (DEM 58.7 million) 100% owned
<b>AEG Fábrica de Motores S. A. Terrassa (Barcelona)/Spain</b>	ESP 3,000,000,000 (DEM 46.4 million) 100% owned
<b>AEG Austria Ges. m. b. H. Vienna/Austria</b>	ATS 300,000,000 (DEM 42.6 million) 57% owned
<b>AEG ETI Elektrik Endüstriyel A. S. Gebze (Istanbul)/Turkey</b>	TRL 30,000,000,000 (DEM 21.9 million) 51% owned

<b>Deutsche Aerospace Aktiengesellschaft Munich</b>	DEM 1,600,000,000 100% owned
<b>Messerschmitt-Bölkow- Blohm GmbH Ottobrunn</b>	DEM 858,000,000 45.16% owned (1)
<b>Deutsche Airbus GmbH Hamburg</b>	DEM 445,000,000 80% owned
<b>MTU Motoren- und Turbinen- Union München GmbH Munich</b>	DEM 156,600,000 100% owned
<b>MTU Motoren- und Turbinen- Union Friedrichshafen GmbH Friedrichshafen</b>	DEM 50,000,000 86% owned
<b>MTU Maintenance GmbH Langenhagen</b>	DEM 30,000,000 100% owned
<b>AG Kühnie, Kopp &amp; Kausch Frankenthal</b>	DEM 14,000,000 61.6% owned (2)
<b>Dornier GmbH Friedrichshafen</b>	DEM 150,402,800 57.6% owned
<b>Dornier Luftfahrt GmbH Oberpfaffenhofen</b>	DEM 50,000,000 100% owned
<b>Dornier Medizintechnik GmbH Germering</b>	DEM 10,000,000 100% owned
<b>Telefunken Systemtechnik GmbH Ulm</b>	DEM 250,000,000 100% owned

<b>Daimler-Benz InterServices (debis) AG 3) Stuttgart</b>	DEM 152,000,000 100% owned
<b>Daimler-Benz Informationssysteme GmbH Stuttgart</b>	DEM 150,000,000 100% owned
<b>Mercedes-Benz EDV-Beratung GmbH Weinheim</b>	DEM 1,000,000 100% owned
<b>Mercedes-Benz Finanz GmbH Stuttgart</b>	DEM 160,000,000 100% owned
<b>Mercedes-Benz Leasing GmbH Stuttgart</b>	DEM 66,000,000 100% owned

<b>Industriehandel Handels- und Industrieausstattungsgesellschaft mbH Stuttgart</b>	DEM 10,000,000 50% owned
<b>Deutsche Automobil- gesellschaft mbH Hannover</b>	DEM 5,000,000 50% owned
<b>HWT Gesellschaft für Hydrid- und Wasserstofftechnik mbH Mülheim/Ruhr</b>	DEM 3,000,000 50% owned
<b>Anambra Motor Manufacturing Co. Ltd. (ANAMMCO) Enugu/Nigeria</b>	NGN 24,000,000 (DEM 5.4 million) 40% owned
<b>National Automobile Industry Company Ltd. (NAI) Jeddah/Saudi Arabia</b>	SAR 70,000,000 (DEM 31.7 million) 26% owned
<b>P. T. German Motor Manufacturing Jakarta/Indonesia</b>	IDR 5,103,000,000 (DEM 4.9 million) 33.3% owned
<b>P. T. Star Motors Indonesia Jakarta/Indonesia</b>	IDR 846,720,000 (DEM 0.8 million) 49% owned
<b>Iranian Diesel Engine Manufacturing Comp. (IDEM) Tabriz/Iran</b>	IRR 5,000,000,000 (DEM 122.2 million) 30% owned
<b>Tata Engineering and Locomotive Comp. Ltd. (TELCO) Bombay/India</b>	INR 1,050,064,100 (DEM 105.1 million) 10.6% owned
<b>Bajaj Tempo Ltd. Poona/India</b>	INR 66,013,338 (DEM 6.6 million) 25.2% owned
<b>Mercedes-Benz Österreich Vertriebsgesellschaft mbH Salzburg/Austria</b>	ATS 5,000,000 (DEM 0.7 million) 50% owned
<b>NAW Nutzfahrzeuggesellschaft Arbon &amp; Wetzikon AG Arbon/Switzerland</b>	CHF 15,000,000 (DEM 16.4 million) 40% owned

# The Daimler-Benz Share

## Statistics per Common Share\*)

	1989	1988
Net income	DM 36.50	39.10
Dividend	DM 12.00	11.65
Dividend and tax credit	DM 18.75	18.21
Cash flow	DM 128.70	140.70
Stockholders' Equity	DM 352.55	246.30

\*) taking into account the capital stock increase of 1989

## Considerable Share Price Recovery During First Quarter of 1990

The Daimler-Benz share was strongly affected by the October 1987 stock market crash as were all listed blue-chip companies. The downward trend of the German stock market did not stop until the end of 1987. From this time onwards, the performance of Daimler-Benz stock lagged behind that of the market as a whole until the end of 1989.

However, during the first quarter of 1990, the Daimler-Benz share increased 17 %, showing relative strength compared to the average of the German stock market as a whole (+ 12 %). The market value of our stock amounted to DM 44 billion at the end of March 1990, and was the highest of any German company.

## Price Development of Common Stock

### Share Prices

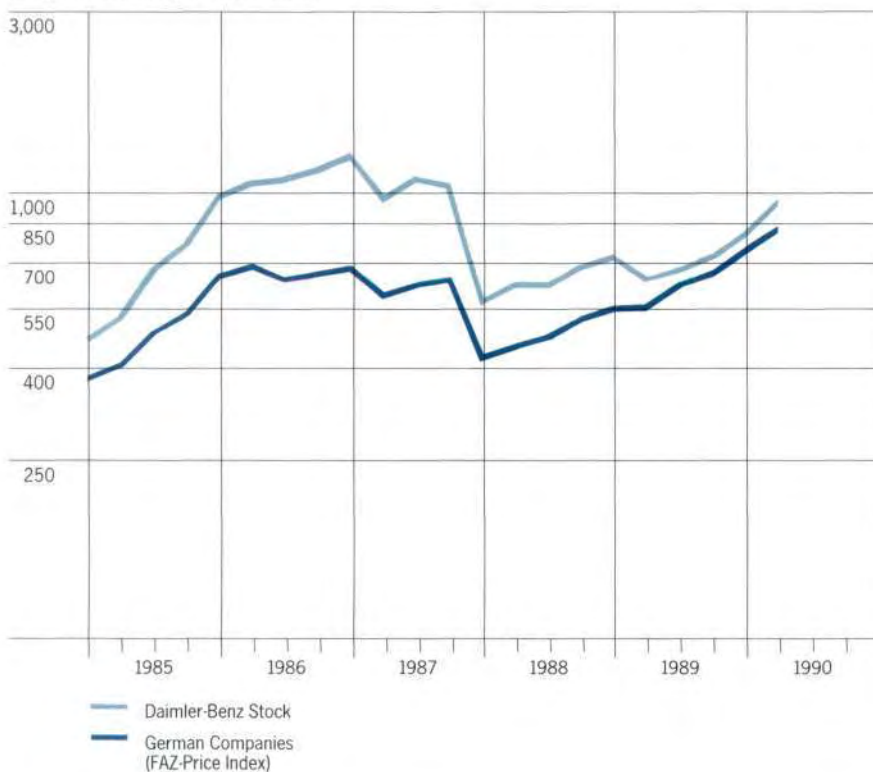
	1989	1988
High	DM 827.95	746.37
Low	DM 624.00	513.76
Closing price year-end	DM 808.00	718.70

### Total dividend amount increased

A dividend of DM 12.00 for each DM 50 par value share, as in the previous year, will be proposed to the stockholders for their approval at the annual meeting on July 4, 1990. The dividend will be payable on the higher share capital amount which was increased to DM 2,330 million on a one-for-ten basis at an issue price of DM 460 per share, in November 1989. Because the new shares will already be entitled to the dividend for 1989, the amount of the payout will increase from DM 504 million to DM 555 million. Applying standard principals of financial analysis, the increase in capital means that the previous year's dividend per share is effectively reduced, in purely notional terms, to a value of DM 11.65. To this extent, the increased capital stock results in a higher yield per share at an unchanged cash dividend; for stockholders subject to income taxes in Germany, the gross dividend rises from DM 18.21 to DM 18.75.

## Price Development of Common Stock

taking into account capital stock increase



## Daimler-Benz Stockholders Well Served

In the past, an investment in Daimler-Benz stock has always been rewarding for longer-term investors. Depending on the date of acquisition, this does not preclude the possibility of declines in price. For this reason, a share inherently involves more risk, but it affords yield opportunities which can not be matched by annuities. For example, an investment in Daimler-Benz stock 15 years ago has yielded an average annual return of 15.6 %. In this calculation we have assumed that the cash dividends (without the tax credit) and rights issues have been reinvested in Daimler-Benz stock.

**Investment in Daimler-Benz Stock  
Investment Amount DM 10,000**

Date of acquisition	1/2/75	1/2/80	1/2/85
Investment duration	15 1/4 yrs.	10 1/4 yrs.	5 1/4 yrs.
Portfolio value in DM at 3/30/90	90,270	70,730	21,510
Value added in % since date of acquisition	813	647	115
Average annual return in %	15.6	21.7	14.7

**One-Third of Capital Broadly Distributed**

Of the share capital of Daimler-Benz AG Deutsche Bank holds 28 % and Mercedes-Automobil-Holding AG (MAH) 25.23 %. MAH was founded in 1975 for

the purpose of preventing stock purchases which could impair the entrepreneurial independence of Daimler-Benz. STERN Automobil-Beteiligungsgesellschaft mbH and STELLA Automobil-Beteiligungsgesellschaft mbH each hold 25 % of the share capital of MAH. The other 50 % of the stock is widely scattered among some 50,000 shareholders.

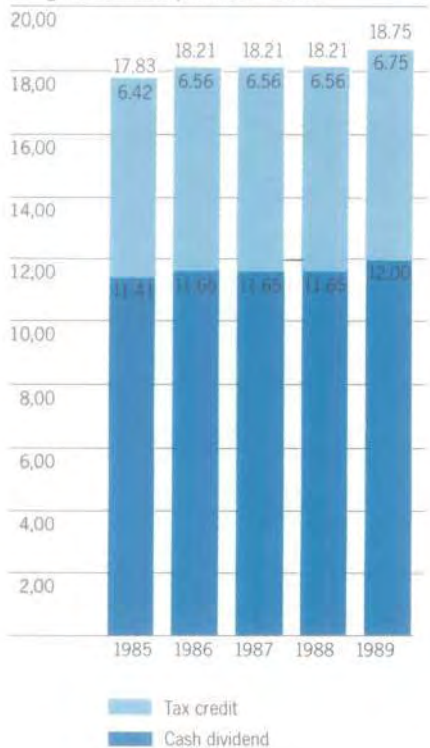
The number of shares issued by Mercedes-Benz-Automobil-Holding to its shareholders corresponds to the number of Daimler-Benz stock it acquires. Shareholders in Mercedes-Automobil-Holding are thus indirectly participating in the earnings and assets of Daimler-Benz AG in the same manner as shareholders of Daimler-Benz AG.

The third largest shareholder of our company is the state of Kuwait, which obtained a significant stake in Daimler-Benz AG during the mid-seventies. Kuwait's stake is presently estimated at approximately 14 %. The remaining 33 % of our share capital is widely scattered and is held by about 300,000 investors both at home and abroad. If MAH is included in this computation, roughly 45 % of our capital is broadly distributed.

**Listing Sought on World Stock Exchanges**

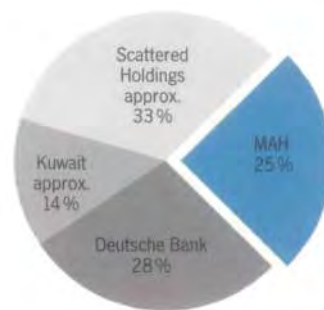
Daimler-Benz stock has to date been listed on all German stock exchanges and the Swiss stock exchanges in Basel, Geneva and Zurich. For the current year 1990 Daimler-Benz stock is to be introduced on the London and the Tokyo stock exchanges. Through the restructuring from an automobile company to a high-technology company, the interest of international investors in the Daimler-Benz share has been enhanced further. It is for this reason that we have also greatly expanded our investor relations department. It is our objective to support the global business activities of Daimler-Benz AG by systematically providing relevant information to financial markets. Regular company presentations in Germany and abroad are an information instrument which are popular with both investors and financial analysts. During the past years, presentations have been held in Germany as well as in London, Edinburgh, New York, Tokyo and in Hong Kong. For the current year, we have planned extensive meetings which will take us to the world's most important financial centers.

**Dividend per DM 50 share (in DM)**  
taking into account capital stock increase

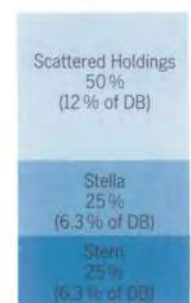


**Stockholders' Structure**

Daimler-Benz AG



Mercedes-Automobil-Holding AG (MAH)



General Annual Meeting:

July 4, 1990  
10.00 o'clock  
Hanns-Martin-Schleyer-Halle  
Stuttgart

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