DAIMLERBENZ
AKTIENGESELLSCHAFT

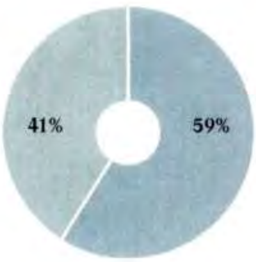
Annual Report 1996

Daimler-Benz is well on the way to becoming a sustainably profitable corporation again. By streamlining our portfolio, we have created a sound economic basis for future growth. Our new management organization gives our 23 business units significantly more autonomy which will allow them to respond flexibly to the challenges of worldwide competition while emphasizing customer orientation. The use of new controlling instruments and the preparation of the financial statements in accordance with the more investor-oriented U.S. accounting principles mean improved disclosure both internally and externally. A satisfactory return for our investors, attractive products and services for our customers, and challenging and secure jobs for our workforce: These are the objectives we are pursuing with our value-based management.

DAIMLERBENZ
AKTIENGESELLSCHAFT

PASSENGER CARS	S-, E-, C-, A- AND M-CLASS SMART
COMMERCIAL VEHICLES	TRUCKS EUROPE COMMERCIAL VEHICLES NAFTA VANS EUROPE DRIVE TRAINS EUROPE BUSES EUROPE COMMERCIAL VEHICLES LATIN AMERICA UNIMOG
AEROSPACE	CIVIL AIRCRAFT AND HELICOPTERS DEFENSE AND CIVIL SYSTEMS AEROENGINES MILITARY AIRCRAFT SATELLITES SPACE SYSTEMS INFRASTRUCTURE
SERVICES	FINANCIAL SERVICES/ INSURANCE BROKERAGE IT SERVICES TELECOMMUNICATIONS AND MEDIA SERVICES TRADING REAL ESTATE MANAGEMENT
DIRECTLY MANAGED BUSINESSES	RAIL SYSTEMS MICROELECTRONICS MTU/DIESEL ENGINES

AUTOMOTIVE	*1996*	1995
DM Amounts in Millions		
Operating Profit [1]	*2,942*	2,349
Revenues [1]	*77,624*	72,100
Investments in Property, Plant and Equipment	*4,451*	3,331
R&D	*3,996*	3,728
Employees	*199,099*	197,164



Percentage of Revenues:

Passenger Cars

Commercial Vehicles

PASSENGER CARS	*1996*	1995
DM Amounts in Millions		
Revenues [1]	*45,949*	40,467
Unit Sales	*644,957*	590,180
R&D	*2,906*	2,503
Employees	*83,732*	80,733

COMMERCIAL VEHICLES	*1996*	1995
DM Amounts in Millions		
Revenues [1]	*31,675*	31,633
Unit Sales	*348,087*	320,089
R&D	*1,090*	1,225
Employees	*80,483*	82,041

Aircraft

Space Systems

Defense and Civil Systems

Propulsion Systems

AEROSPACE	*1996*	1995
DM Amounts in Millions		
Operating Profit [1]	*5*	(6,724)
Revenues [1]	*13,053*	15,093
Incoming Orders	*17,076*	14,279
Investments in Property, Plant and Equipment	*584*	564
R&D	*3,681*	4,131
Employees	*44,936*	50,784

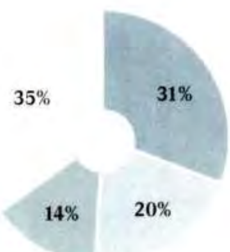
Financial Services/ Insurance Brokerage

IT Services

Telecommunications and Media Services

Other Business Units

SERVICES	*1996*	1995
DM Amounts in Millions		
Operating Profit [1]	*328*	128
Revenues [1]	*13,143*	11,714
Investments in Property, Plant and Equipment	*225*	231
Employees	*11,500*	10,196



Rail Systems

Microelectronics

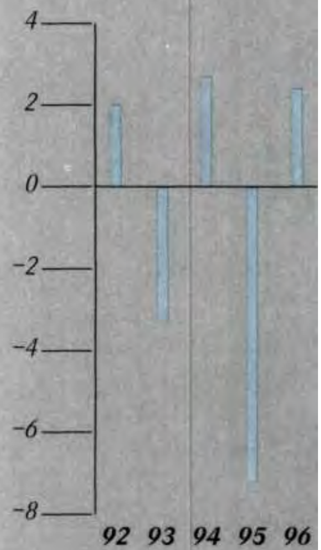
MTU/Diesel Engines

Sorting and Recognition Systems[2]

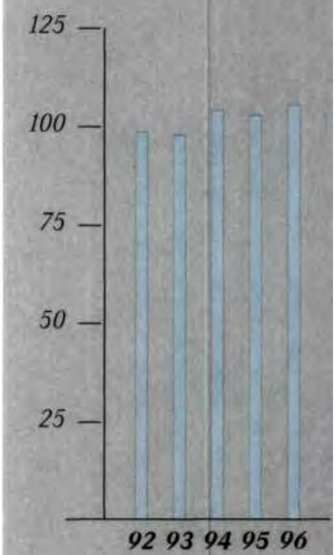
DIRECTLY MANAGED BUSINESSES	*1996*	1995[3]
DM Amounts in Millions		
Operating Profit [1]	*(328)*	(1,840)
Revenues [1]	*8,014*	10,151
Incoming Orders	*7,910*	14,025
Investments in Property, Plant and Equipment	*502*	601
R&D	*816*	793
Employees	*31,005*	49,432

[1]) Unconsolidated figures of the business.
[2]) Severed from the consolidated group effective January 1, 1997.
[3]) Amounts for AEG DBI.

Consolidated Operating Profit *)
In Billions of DM



Consolidated Revenues *)
In Billions of DM



*) Until 1994 according to German GAAP, since 1995 according to U.S. GAAP.

Daimler-Benz Group	1996	1996	1995
	US $ Amounts in Millions [1]	DM Amounts in Millions	
Revenues	*69,110*	*106,339*	102,985
Germany	*25,453*	*39,165*	37,684
Foreign	*43,657*	*67,174*	65,301
Employees (at Year-End)		*290,029*	310,993
Germany		*222,821*	242,086
Foreign		*67,208*	68,907
Research and Development Cost	*5,748*	*8,845*	8,941
Investments in Property, Plant and Equipment	*4,037*	*6,212*	4,782
Cash Provided by Operating Activities	*6,631*	*10,203*	5,455
Operating Profit According to U.S. GAAP	*1,575*	*2,423*	(7,197)
Net Income (Loss) According to U.S. GAAP	*1,795*	*2,762*	(5,729)
Net Income (Loss) According to U.S. GAAP per DM 5 Share (in US $, in DM)	*3.48*	*5.35*	(11.17)
Capital Stock	*1,675*	*2,577*	2,568
Net Income (Loss) of Daimler-Benz AG	*844*	*1,298*	(6,577)
Dividend per DM 5 Share (in US $, in DM)	*0.71*	*1.10*	–

1) Values converted at US $ 1 = DM 1.5387; this corresponds to the Noon Buying Rate of the Federal Reserve Bank of New York on Dezember 31, 1996.

CONTENTS

LETTER TO THE STOCKHOLDERS AND FRIENDS OF OUR COMPANY *2*
BOARD OF MANAGEMENT 5
BUSINESS REVIEW *6*
AUTOMOTIVE *13*
AEROSPACE *20*
SERVICES *25*
DIRECTLY MANAGED BUSINESSES *29*
RESEARCH AND TECHNOLOGY *34*
PERSONNEL *36*
DAIMLER-BENZ IN SOCIETY *38*
DAIMLER-BENZ IN THE FINANCIAL MARKETS *41*
VALUE-BASED MANAGEMENT, US GAAP AND NEW CONTROLLING INSTRUMENTS *44*
DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION *46*
FINANCIAL STATEMENTS *51*
SUPERVISORY BOARD *81*
REPORT OF THE SUPERVISORY BOARD *82*
ADDRESSES AND INTERNATIONAL REPRESENTATION OFFICES *84*
MAIOR SUBSIDIARIES OF DAIMLER-BENZ AG *86*
DAIMLER-BENZ IN FIGURES *88*
MAIOR DIFFERENCES BETWEEN GERMAN AND U.S. ACCOUNTING PRINCIPLES *90*

Ladies and Gentlemen,

In my letter to you one year ago, I said our number one goal was to return Daimler-Benz to profitability. I referred to the difficult path that lay before us and to the tough decisions and actions that we would have to take to achieve our aim.

One year later, I am happy to report to you that we have succeeded in this goal. The profit we achieved in 1996 represents a milestone in this effort. The measures taken in 1995 and 1996 are beginning to pay off. And we have created the basis for a further improvement of earnings in the future.

Daimler-Benz is once more a profitable company. We have refocussed our company on its traditional strenghts and values. We have eliminated businesses that either were not profitable or did not fit within our strategy. We have set strict return on capital targets for all our business units.

Today, Daimler-Benz is a provider of technologically advanced transportation products, traffic systems and services, with a portfolio of 23 business units with high growth and earnings potential. This enables us to allocate our resources to those projects that earn the highest return.

Daimler-Benz is a company which will continue on its course of increasing shareholder value. The 1996 figures speak for themselves:

- *We have achieved an operating profit of DM 2.4 billion in 1996, after a large operating loss in 1995, when we were streamlining.*
- *The figures reflect the streamlined portfolio as well as operational improvements in nearly all business units. The programs to boost efficiency have brought down costs significantly and improved our competitive position.*
- *We have increased revenues by 10 per cent to DM 106.3 billion.*

We have proposed a dividend of DM 1.10 per DM 5 share, which will be paid entirely from earnings generated from our operating business, and at the same time increases stockholders' equity as the basis for future growth.

But we could not have done this without our employees who are largely responsible for our regained profitability. We could not have achieved what we have achieved without their commitment and dedication and without the constructive approach taken by employee representatives and management at every step of the way during the past two years.

We recognize the contribution of our employees to making production in Germany more competitive. We have concluded numerous individual plant agreements involving 135,000 employees in German factories which include guarantees for permanent employment for all apprentices in these plants. Daimler-Benz presently offers apprenticeships to approximately 9,200 young people in Germany.

However, despite this initial success, we must remember that the 1996 results represent only the first stage on the way to restoring our company to its traditional levels of profitability. In addition, we have not yet achieved our goal of being in a leading position in each of our markets with high quality products and services. Not only do we want to lead in terms of the quality of our products, but we also want to be a leader in terms of our return on capital.

Therefore, our top priority continues to be the achievement of a minimum return of 12 per cent on capital employed. While we have recently come a good deal closer to this goal, we cannot rest on our laurels. The profitability of the world's best competitors set the standard for the return targets in each respective business unit. We are still some way short in this regard. However, the fact that we occupy a leading position in many of our markets gives us confidence for the future.

We are especially confident about Mercedes-Benz vehicles. Our strategy is to offer the best products in all our market segments over the long term and we are well on our way to achieve that goal. Our current product drive and vehicle offerings are unprecedented in the history of Mercedes-Benz passenger cars. In 1997, we will launch three new models which we expect will meet with great success: The A-class, the M-class and the CLK; our whole range of vehicles will all have additional innovations. Overall, we plan to expand our sales from 645,000 units in 1996 to more than 1 million vehicles in 2000.

New approaches to marketing and sales underpin our strategy. We have reinforced the position of a board member in charge of Sales and Marketing. We have expanded our resources in this area. In this context, the decision to continue to use the star exclusively for the Mercedes-Benz logo will also strengthen this division.

In commercial vehicles, we are world leader in terms of sales. We have cut costs by between 20 and 30 per cent and achieved a better price/performance ratio than our competitors with our new products - the Sprinter, the Vito, and the Actros, the latter of which was named Truck of the Year. However, despite advances in productivity, our earnings are still unsatisfactory. We will pursue expansion of our market position, especially in North and South America, and will continue our product drive this year by focussing on the new light class in Europe. We will also refocus ourselves and intensify our efforts to achieve earnings in our European truck business that meet our new, stringent requirements.

Daimler-Benz Aerospace (Dasa) introduced its major initiative to improve competitiveness and has made significant progress in enhancing its productivity as a result The trebling of orders for Airbus in 1996 was due in no small measure to this success. However, much remains to be done to remain competitive in the ever-changing aerospace industry. As the worldwide industry continues to consolidate, most notably in the United States through the merger of Boeing and McDonnell Douglas; and as defense and space technology budgets continue to decline, a European solution is the only way the European aerospace industry can remain competitive. Dasa is a driving force in this process.

Daimler-Benz InterServ ices (debis), our services unit, has become one of the leading companies in its sector generating excellent results and creating new jobs. We are very satisfied with its progress, debis will continue to develop internationally with promising new businesses started in sectors such as telecommunications and media services.

Adtranz, the joint rail venture with Asea Brown Boveri (ABB), which is the market leader in this sector growing by 8 per cent a year, is strategically well positioned. The operational start-up problems of the first year will be resolved this year. At TEMIC, we are focussing our growth on vehicle electronics, an activity which is growing much faster than the market. MTU-Eriedrichshafen - the Diesel Engines business unit - has consistently succeeded with new products in new markets as well.

In conclusion, we have made good progress in our operations. We have identified the major contributors to earnings and have laid the groundwork for continued profitable growth. But growth can be sustained only in areas where we enjoy clear superiority over our cornpetitors. That is why we are concentrating on the areas where we excel on a worldwide basis. The acquisition by our subsidiary Freightliner in North America of Ford's heavy truck business is an example of this strategy. And we are now embarking on efforts to further globalize our activities, particularly in Asia and in Latin America.

In the interest of securing our competitive position for the long term, we will continue to enhance our position as a leader in research and development In 1996, we invested DM 5.6 billion in this area and were among the leading German companies in terms of the number of patent applications. As an example of our leading position in this area, we presented the first zero-emission vehicle in the world, a passenger car that runs on fuel cell technology in everyday conditions.

But a great deal more has taken place in your company to firmly establish a comprehensive concept of value-based leadership. This concept of value-creation requires different thinking on all decision levels; it not only requires bottom-line orientation, but also efficient structures, processes and - not least - a totally new approach to personnel management.

With the group's new management structure which has been in place since early April, we are shifting responsibilities down the line to our managers in order to encourage a new sense of entrepreneurship and ownership within the company, thus making us more efficient and quick to respond to the needs of the market. Additional improvement in speed and efficiency will be achieved by the end of 1997 by further organizational streamlining.

We plan to involve employees more directly in the effort to improve earnings; models are being developed. Employees should be rewarded according to the contribution of value they make to the company. In addition, at the annual shareholders' meeting we will propose expansion of the value-based stock option incentive system to include the second level of management.

1996 marks the first time we have prepared our accounts in accordance with U.S. accounting principles which gives our investors worldwide the transparency they require. This means that our success as well as our shortcomings will be reported with new clarity. The terms operating profit, return on capital employed, and cash flow have become part of the language of the entirt company and part of our corporate philosophy.

In conclusion, we believe we have succeeded in wha we set out to do. We have restored Daimler-Benz to pro) itability, and we have laid the foundations for futurt growth. Our central focus is the enhancement of long term value-creation. We are fully aware that success for the future will require that we are closer than ever to our customers and to our markets. We must continue to produce the best quality products in the markets ir which we choose to do business. And we must occup) the leading position in those markets. In the end, our customers will decide whether we succeed or fail anc therefore, the customer must be at the forefront of all that we do. People - both inside the company and ir the market place - are the key to our success.

At Daimler-Benz, we view the increase in the market value of our company, as reflected in its stock price, as an expression of the expectations that our shareholders have of us and our work. We are encouraged by this confidence and will continue to work to achieve new levels of efficiency and profitability for Daimler-Benz AG in the coming years.

Sincerely,

from left to right:

Dr. rer. pol. Eckhard Cordes
born 1950 in Neumiinster, member of the Board of Management since 1996, responsible for Corporate Development and Directly Managed Businesses, under contract until 2002.

Heiner Tropitzsch
born 1942 in Hannover, member of the Board of Management since 04/01/1997, responsible for Human Resources, under contract until 2002.

Jtirgen Hubbert
born 1939 in Hagen, member of the Board of Management since 04/01/1997, responsible for the Passenger Car Division, under contract until 2002.

Dr.-Ing. Dieter Zetsche
born 1953 in Istanbul, member of the Board of Management since 04/01/1997, responsible for Sales and Marketing, under contract until 2002.

Jiirgen E. Schrempp
born 1944 in Freiburg, member of the Board of Management since 1987. Chairman, under contract until 2000.

Dr. rer. pol. Manfred Bischoff
born 1942 in Calw, member of the Board of Management since 1995, responsible for the Aerospace Division (Daimler-Benz Aerospace), under contract until 2000.

Dr. jur. Klaus Mangold
born 1943 in Pforzheim, member of the Board of Management since 1995, responsible for the Services Division (Daimler-Benz InterServices), under contract until 2000.

Dr. phil. Kurt J. Lauk
born 1946 in Stuttgart, member of the Board of Management since 04/01/1997, responsible for the Commercial Vehicles Division, under contract until 2002.

Klaus-Dieter Vohringer
born 1941 in Dessau, member of the Board of Management since 04/01/1997, responsible for Research and Technology, under contract until 2002.

Dr. jur. Manfred Gentz
born 1942 in Riga, member of the Board of Management since 1983, responsible for Finance and Controlling, under contract until ?ooo.

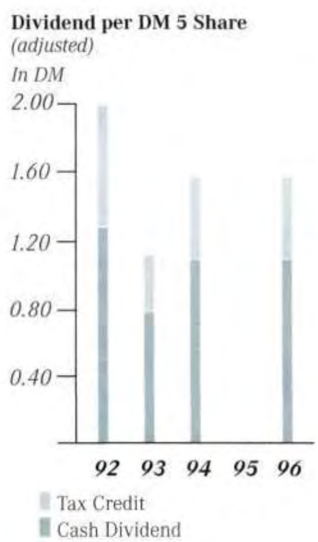
Retired from the Board of Management: Ernst G. Stöckl (on 09/20/1996), Helmut Werner (on 01/31/1997), Prof. Dr.-Ing. Hartmut Weule (on 12/31/1996)

Daimler-Benz concluded fiscal 1996 with a profit Consolidated net income according to United States generally accepted accounting principles totaled DM 2.8 billion (1995: DM -5.7 billion); the operating profit - the standard for measuring the success of our operational business - reached DM 2.4 billion (1995: DM 7.2 billion loss). We achieved this pleasing growth in income by streamlining the group's portfolio. The market success of our new products and our programs to enhance efficiency in all business units have contributed to the improved results, as have the more favorable exchange rates. The new management structure that became effective on April 1, 1997 creates the conditions for accelerating decision-making processes in the company. It extends greater autonomy to the business units, allowing them to respond flexibly to the market while emphasizing customer orientation. Following the encouraging development of business on the whole in the first three months of 1997, we expect our operating profit to continue to grow this year. For the medium-term future, each individual business unit is to yield a return of more than 12% on the capital employed, thus increasing the value of Daimler-Benz.

NET INCOME CLEARLY POSITIVE AGAIN

Consolidated net income as determined using U.S. generally accepted accounting principles reached DM 2.8 billion in 1996, an especially positive improvement following the heavy DM 5.7 billion loss in fiscal 1995.

We were also able to noticeably increase our operating profit - the standard for measuring the success of our operational business - to DM 2.4 billion. This pleasing development of results was primarily accomplished with the streamlining of the group portfolio initiated in 1995 and continued in the year under review, by which we eliminated sources of losses and increased our earning power. In this connection, extensive non-recurring expenditures that had to be taken into account in the 1995 financial statements had a significant impact on earnings in that year. The growth in earnings in 1996 was not only a result of the elimination of these expenses, however, but was also achieved with the positive development of our operational business related to the market success of our new products, the programs to boost efficiency in all units, and the more favorable exchange rates.



As in the previous years, our vehicle business played a central role in the Company's operating profit, contributing a total of DM 2.7 billion. While the contribution of Aerospace was still negative at DM -0.2 billion, it did improve quite noticeably as compared to the 1995 figure. Services were able to increase their share markedly to DM 0.3 billion. The Directly Managed Businesses contributed a total of DM -0.6 billion to the group's operating profit.

On the whole, business was pleasing in the first three months of 1997. In view of the good order situation we expect this development to continue in the coming months as well. On this basis, and as a consequence of the advantageous strength of the U.S. dollar, we expect the operating profit to increase yet again in 1997.

DM 1.10 DIVIDEND

In the financial statements of Daimler-Benz AG prepared in accordance with German accounting principles for the year 1996, net income amounts to DM 1.3 billion (1995: DM -6.6 billion). When comparing this total with the previous year's result, it should be taken into consideration that the figure reported in 1995 contained an extraordinary loss of DM -5.1 billion resulting from non-recurring expenditures arising within the group and the full write-off of our interest in Fokker.

Considering that the result from our operational business is clearly positive once again, we propose to our shareholders that a dividend in the amount of DM 1.10 per DM 5 par value share be paid out of unappropriated retained earnings. With share capital totaling DM 2,577 million, the payout amount is DM 567 million.

WORLD ECONOMY RELATIVELY FLAT

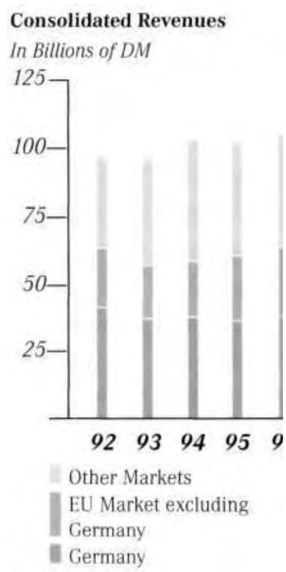
We were able to achieve this noticeable increase in earnings despite the fact that the overall economic conditions in the markets that are important for Daimler-Benz did not improve significantly. The economic growth in the industrialized countries, at 2%, was only slightly higher than in the previous year and varied considerably from region to region.

Because of the weak development in the first half of the year, growth rate in Western Europe - and above all in Germany - declined perceptibly. It was not until the second half of the year that the lower interest rates, the stronger U.S. dollar, and the stabilization of exchange rates within Europe led to a more favorable economic climate in these important markets.

The stable upward trend in the U.S. economy continued to pick up speed. Catalysts included private consumption and persistently brisk investment activity.

As a result of government spending programs, the Japanese economy also experienced vigorous growth in 1996.

The international economic significance of the newly industrializing and developing countries became more pronounced in the year under review. Prominent factors included the stabilization of the economies in the Latin American countries and the above-average growth rates in certain Central and Eastern European countries and the Asian region.



CONSOLIDATED REVENUES NOTICEABLY IMPROVED

Against this economic background, we increased consolidated revenues to DM 106.3 billion in 1996, surpassing the previous year's total of DM 96.5 billion (adjusted for changes in the consolidated group) by 10%. We recorded significant growth in nearly all of the important markets. Revenues in the European Union totaled DM 65.3 billion; comparably calculated, this was 16% higher than in 1995. In the EU countries outside of Germany, we achieved a 18% increase, while our revenues in Germany were up 14% to DM 39.2 billion. Our business volume in the USA rose to DM 19.1 billion (1995: DM 17.4 billion). In the other markets, revenues reached DM 22.0 billion, outperforming the previous year's level by 9%.

VIGOROUS GROWTH IN ALL SEGMENTS

All of the Company's business segments contributed to the expansion of consolidated revenues. In the Automotive business (Mercedes-Benz) our revenues grew 8% to DM 77.6 billion, above all due to the success of the many new vehicle types launched in 1995 and 1996.

When comparably calculated, the Aerospace Division (Daimler-Benz Aerospace) improved its revenues by 13% to DM 13.1 billion, while Services (Daimler-Benz InterServices) recorded a 12% expansion; its revenues also totaled DM 13.1 billion. The external revenue of the Directly Managed Businesses reached DM 8.0 billion.

Without internal deliveries, Mercedes-Benz contributed 71% to the revenues of Daimler-Benz, Daimler-Benz Aerospace (Dasa) 12%, Daimler-Benz InterServices (debis) 10%, and the Directly Managed Businesses 7%.

CONCENTRATION ON CORE COMPETENCIES

In the year under review, we continued the review of our corporate portfolio that we had first initiated in 1995. The most essential criteria we referred to were the market position of the individual activities, the competitive situation, the assessment of potential returns and risks, future capital requirements, and the strategic importance within the group. By focusing on our core competencies we reduced the number of businesses we maintain to 23 instead of the 35 we had in mid-1995.

We completed the reorganization of the business activities of AEG Daimler-Benz Industrie in 1996. Upon the recording of the change in the Commercial Registry in September 1996, AEG AG merged with Daimler-Benz AG with retroactive effect as of January 1,1996. The assets of AEG AG had already been spun off to EHG Elektroholding GmbH at that point. The Energy Systems Technology and Systems and Automation Technology units were sold to companies specializing in these activities in the year under review. The Sorting and Recognition Systems business unit was sold to Siemens AG with economic effect as of January 1, 1997. Of the former activities of AEG Daimler-Benz Industrie, the Daimler-Benz group is now concentrating on Rail Systems (Adtranz), Microelectronics (TEMIC), and Diesel Engines (MTU Friedrichshafen) as Directly Managed Businesses. We had already transferred Rail Systems to Adtranz, a 50:50 joint venture with ABB, on December 31, 1995. After the sale of Bayern-Chemie Airbag GmbH at the end of 1996, TEMIC will focus increasingly on the automotive electronics and semiconductor sectors in the future.

Following the discontinuation of our financial support for Fokker in January 1996 and the transfer of Dornier Luftfahrt GmbH in June 1996 to a company in which the American Fairchild Aircraft Inc. holds a majority share, Daimler-Benz Aerospace withdrew from direct business with regional aircraft. Due to the difficult competition conditions and our position in this market, we no longer consider it justifiable to continue these activities. Within the context of our concentration on core competencies, Dasa transferred its majority share in Dornier Medizintechnik to Singapore Technologies in January 1996. Singapore Technologies plans to intensify its involvement in this sector.

Daimler-Benz InterServices stepped up its activities in the telecommunications and media services sector in an effort to take advantage of the opportunities of this growth market. debis withdrew from the Marketing Services business unit because this activity is not among the core competencies of the group and its market position was not able to join the lead in each of the relevant sectors.

Following the realignment of the portfolio, Daimler-Benz is now active in the following businesses: passenger cars, commercial vehicles, aerospace, services, rail systems, microelectronics, and diesel engines.

NEW MANAGEMENT ORGANIZATION IN THE DAIMLER-BENZ GROUP

In tandem with the strategic development of the group, we also reviewed our structures and processes. The result was the new organizational structure we presented in January 1997, which has been in place since April 1, 1997. Its objective is to make administrative and planning processes within the group faster and more cost effective and efficient. The units active in the market have been given significantly expanded autonomy, which will enable them to respond flexibly and effectively to the challenges of worldwide competition while emphasizing customer orientation.

An important element of the new corporate structure is the merger of Mercedes-Benz AG with Daimler-Benz AG. Consolidating the two headquarters eliminates one management level. At the same time, it underscores the fact that the vehicle business will constitute the focus of the group's activities in the foreseeable future.

Decision-making processes were greatly accelerated at Dasa when we dissolved the former intermediate levels Aircraft, Defense, and Space Systems. We consolidated the information and reconnaissance systems product areas, together with sensor systems, within the Defense and Civil Systems business unit.

Administrative expenses are also being noticeably reduced in the central units at debis. We have streamlined the hierarchic levels in this division. debis Financial Services and debis Insurance Brokerage are being consolidated within one unit.

STRENGTHENING EARNING POWER

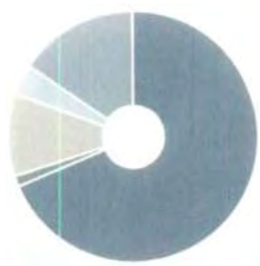
In the year under review, we implemented targeted measures to reinforce the earning power of the 23 business units remaining in the group. In the medium-range future, all units within the group are expected to yield a return above 12% and thus higher than the cost of capital employed. This is meant to ensure that the contribution of each individual business unit enhances the value of our Company.

Above all at TEMIC and Adtranz and in the business units Trucks Europe, Unimogs, and Drive trains Europe, we have decided to pursue vigorous campaigns to lead these businesses to produce the 12% minimum return on capital employed. Notwithstanding the significantly improved orders situation and the revaluation of the U.S. dollar as compared to the German mark, we continued the programs we had introduced at Dasa in 1995 to promote competitiveness. It is still our goal to generate a profit even if the dollar were to remain at a low rate for long periods.

EMPLOYMENT SITUATION STABILIZED

Thanks to the success of the programs to boost efficiency we had already implemented and the encouraging prospects for all business units on the whole, the employment situation at Daimler-Benz stabilized again following the personnel cuts in the previous years. Contributing factors included the internal agreements for most of our German factories concluded with the employee representatives, which make it possible for us to greatly reduce personnel expenses while increasing the flexibility and efficiency of our workforce. We thus improved the conditions for competitive production in Germany and safeguarded jobs there.

Employees by Segments
At Year-End



	96 in %	95 in %
Automotive	68.6	63.4
Aerospace	15.5	16.3
Services	4.0	3.3
Directly Managed Businesses *)	10.7	15.9
Daimler-Benz AG	1.2	1.1

*) 1995 AEG DBI

At December 31,1996, we employed a total of 290,029 employees worldwide (1995: 310,993 persons), of which 222,821 worked in Germany (1995: 242,086 persons). The lower number of employees as compared to the previous year is primarily related to structural changes such as the disinvestment of businesses at AEG and Dasa.

A total of 199,099 persons were employed by Mercedes-Benz at year-end 1996 (1995: 197,164 persons). The layoffs at Daimler-Benz Aerospace were not as heavy as originally planned, predominantly because the order situation at Airbus picked up remarkably and production volume could be increased on a permanent basis. At the end of December 1996, Daimler-Benz Aerospace employed a total of 44,936 persons (comparably calculated for 1995: 46,892 persons). Daimler-Benz InterServices increased its workforce by 1,304 to 11,500 employees. If the previous year's total is adjusted to reflect structural changes, the number of employees at the Directly Managed Businesses remained nearly unchanged at 31,005 persons.

GLOBALIZATION OF PURCHASING ACTIVITIES

The Daimler-Benz group purchased goods and services worldwide worth a total of DM 66.9 billion in 1996.

Just under three quarters of the purchases were for the Automotive business, 10% for Daimler-Benz Aerospace, 8% for Daimler-Benz InterServices, and 8% for the Directly Managed Businesses.

It remains a high priority of our activities to continue to tap international purchasing markets. Our objective is to make use of cost advantages while at the same time limiting currency risks. We are concentrating our efforts on the Asian and Pacific growth markets above all.

As always, however, we are still committed to cooperating with our German partners, whose quality consciousness and innovation potential is respected around the world.

We are continuing our purchasing drive in Eastern Germany; at this point we are concentrating on stabilizing the business relations we have already established.

CAPITAL EXPENDITURES INCREASED TO DM 6.2 BILLION

The investments of the Daimler-Benz group in property, plant, and equipment (excluding effects from first consolidations) climbed to DM 6.2 billion in 1996 (1995: DM 4.8 billion).

Once again, the majority of our capital expenditures went toward securing the future of our Automotive business with a total of DM 4.5 billion (1995: DM 3.3 billion).

In the Passenger Car Division, the engine plant in Stuttgart-Bad Cannstatt, the preparations for production of the A-Class in Rastatt, and the transition to new paint technologies were among the most important investments. The most important project outside of Germany was the preparation for production of the M-Class in the USA.

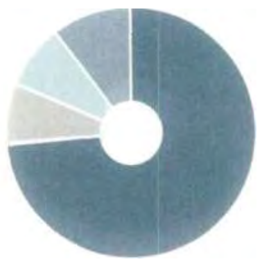
The capital expenditures made in the Commercial Vehicle Division were also primarily focused on the production of new vehicles and assemblies. Priorities included the heavy-duty Actros truck, the new light class, and the new engines, drive trains, and axles.

DM 0.6 billion were invested at Dasa in 1996; one of the most important projects was the expansion of production capacities for the planned volume run-up in the Airbus program, debis invested DM 0.2 billion, and the Directly Managed Businesses a total of DM 0.5 billion. The investment volume of Daimler-Benz AG reached nearly DM 0.5 billion, of which DM 0.4 billion were spent on the Potsdamer Platz real estate project.

As a consequence of the growing leasing business, capital expenditures for leased equipment were once again on a high level at DM 6.1 billion.

Daimler-Benz expects to invest nearly DM 20 billion in property, plant and equipment in the 1997 to 1999 planning period. Here, too, the emphasis will be on the Passenger Car and Commercial Vehicle divisions. Because of the product drive, another noticeable expansion in the automotive sector is on the horizon in fiscal 1997; the investment volume will therefore tend to decrease in the following years. In the financial services sector, we expect business volume and hence capital expenditures for leased equipment to continue to increase.

Purchasing Volume
DM 66.9 Billion (1995: DM 66.9 Billion)



	96 in %	95 in %
Automotive	73.8	68.8
Aerospace	10.2	12.4
Services	8.3	10.2
Directly Managed Businesses *)	7.6	8.5
Daimler-Benz AG	0.1	0.1

*) 1995 AEG DBI

DM 8.8 BILLION SPENT ON RESEARCH AND DEVELOPMENT

We spent a total of DM 8.8 billion on research and development projects in 1996 (1995: DM 8.9 billion). Of this amount, DM 3.3 billion (1995: DM 3.6 billion) were allocated to contract development services rendered almost exclusively by Daimler-Benz Aerospace.

As in the past, the majority of the funds allocated to our own research and development was spent on securing the future of our vehicle business, because customer-oriented innovations form the basis of our product drive. Of a total of DM 4.0 billion (1995: DM 3.7 billion), DM 2.9 billion were related to passenger cars and DM 1.1 billion to the commercial vehicle sector. The focus of our activities remained developing new-generation vehicles and assemblies to the production stage. We have become significantly more efficient in research and development for the automotive sector thanks to new forms of interdisciplinary teamwork and the intensified involvement of the supplier industry. These factors alone made it possible to develop so many attractive products within such a short time at competitive costs.

A total of DM 3.7 billion was spent at Daimler-Benz Aerospace on research and development (comparably calculated for 1995: DM 4.0 billion), of which DM 3.0 billion were related to projects completed under contract for third parties (comparably calculated for 1995: DM 3.3 billion). Among the most important projects in the aircraft sector were the expansion of the Airbus program with new model versions, the Eurofighter, and the Tiger and NH90 Eurocopter programs. In the Propulsion Systems business unit, the EJ200 engines, PW4000 growth, and PW500 were chief pursuits, and in the Defense unit the sensor and information systems product areas. Research and development in the space systems infrastructure and space systems satellites areas, which in the year under review reached a volume of more than DM 2.0 billion, predominantly concerned third-party contracts.

Adtranz used its research and development expenditures, totaling DM 316 million, on a new generation of track-bound vehicles with tilt technology, on fully automated passenger transport systems, and on innovative solutions in the operation control technology sector among other products.

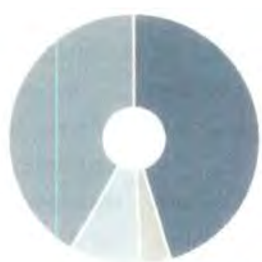
TEMIC primarily concentrated on innovative products in the automotive electronics sector, spending DM 324 million on R&D in 1996. Key areas included airbag systems, electronic stability programs, and sensory systems for automotive applications.

MTU Friedrichshafen developed the new 2000 and 4000 engine series to the production phase in cooperation with Detroit Diesel Corporation (DDC). Moreover, work on fuel cell technology continued and development efforts were initiated for the commercial high-end engine series. MTU Friedrichshafen spent a total of DM 106 million (1995: DM 99 million) on research and development.

In the period from 1997 to 1999, the funds we use in the Daimler-Benz group in connection with our own research and development projects will remain at the present high level of more than DM 5 billion per year. We will continue to focus more than 70% of total expenditures on the group's automotive business.

Research and Development Expenditure

DM 8.85 Billion (1995: DM 8.94 Billion)



	96 in %	95 in %
Automotive	45.2	41.7
Aerospace	41.6	46.2
Directly Managed Businesses *)	9.2	8.9
Daimler-Benz AG	4.0	3.2

*) 1995 AEG DBI

OUTLOOK

We expect the subdued upward trend in the world economy to continue in the coming years.

Based on the export business, an upswing is on the horizon for the economies of Western Europe. But this development will be limited as a result of the reserved spending policies pursued by various EU member countries in order to comply with the criteria for accession to the European monetary union.

The German economy will most likely pick up speed again in 1997, with growth around 2%. Prominent factors will be the export business above all, as well as investment activities to a limited extent, while the expansion of private consumption will probably be below average.

The upward trend in the U.S. economy related to brisk domestic demand will continue its seventh consecutive year in 1997, although presumably somewhat weaker than before. The economy in Japan, on the other hand, may lose a great deal of vitality again as a result of a more restrictive fiscal policy.

Growth prospects for the Pacific Rim countries and various countries in Central and Eastern Europe remain better than average. The economy is also expected to accelerate in the Latin American countries in 1997.

Against the background of an overall revitalization of the economy that is only moderate at best, growth in the passenger car and commercial vehicle markets will be limited in 1997. However, we do expect the Automotive business of Daimler-Benz to develop significantly more favorably than the industry on the whole in 1997.

The Passenger Car Division expects to continuously increase its sales in the coming years. We plan to expand our position in the market for luxury cars worldwide by introducing attractive new models in the existing series while at the same time tapping additional markets and customer groups with new products.

In the Commercial Vehicle Division, the success of our product drive will enable us to boost sales yet again. Aside from the new Actros, the persistently encouraging van business will be an especially beneficial factor in 1997. We plan to systematically expand our truck business in North America by taking over Ford's heavy truck activities.

By the turn of the millennium, Daimler-Benz will most likely produce and sell in excess of one million passenger cars and 450,000 commercial vehicles per year.

We expect revenues in the Aerospace business to grow markedly in 1997, above all because of the pleasing development of orders in the commercial jet sector. The Propulsion Systems business unit will also be able to profit from the revival of the commercial jet market. In the Space Systems unit, revenues are likely to increase in conjunction with the invoicing of major projects. In the Defense and Civil Systems unit, Dasa is counting on a slight growth in revenues along with the emerging upturn of business in the defense sector. On the basis of the programs we have introduced to enhance competitiveness and the strong U.S. dollar, the earning power of the Aerospace Division will improve yet again in the operational area.

The Airbus partners signed a memorandum of understanding in January 1997 that stipulates the conversion of the consortium to a corporation by the year 1999, marking another important step toward the consolidation of the European aerospace industry.

The service industry will be one of the world's most dynamic growth sectors in 1997 as well. Daimler-Benz InterServices will take advantage of the opportunities connected with this growth and expects to be able to sustain the positive development of recent years. The internationalization of activities in all business units will be instrumental in this undertaking. We are projecting the high growth to continue in all business units at debis, a development that will not only be supported by internal transactions, but in an increasing measure by our transactions with outside customers. We are convinced that we will be able to improve our market share in all units. The Financial Services/Insurance Brokerage and Trading units will profit from the expansion of industrial business at Daimler-Benz and the growing importance of these services in connection with systems solutions. The IT Services unit will focus its service range more emphatically than before on the needs of individual customer groups and continue to expand its international presence.

After making adjustments for structural changes, we expect the business volume of our Directly Managed Businesses to steadily increase.

With attractive new products and a competent, worldwide service network, Adtranz has created the conditions to reinforce its leading international position in rail systems.

TEMIC will concentrate its activities more decidedly on the needs of the automotive industry in the future. Innovative products in the vehicle electronics and semiconductor sectors are the basis for future growth in this respect.

MTU-Friedrichshafen is counting on revenue to expand yet again in the next few years. New growth will be stimulated by the market introduction of the new 2000 and 4000 engines series in particular, which are specially designed to satisfy the needs of commercial markets.

With the strategic realignment of the group and the new organizational structure, we laid the foundation in 1996 for sound growth for the Company.

But to a large extent, the development of business and earnings in the coming years will also depend on how the economic situation and above all the U.S. dollar progress in the markets that are important to us. Another significant factor will be the response to our new products in the international markets.

Fiscal 1996 was very successful for our vehicle business on the whole. Sales of passenger cars and commercial vehicles as well as revenue reached an all-time high, and we were also able to increase our contribution to the Daimler-Benz group's operating profit to DM 2.7 billion. The attractive product innovations we had launched in 1995 were primarily responsible for this success. We continued our product drive in 1996 with the SLK roadster, the new T-Models of the C- and E~Class, the V-Class, the new Actros heavy trucks, and the Vito and Vario vans. We made additional progress in the globalization of our activities, thus creating the conditions for opening up new markets.

AUTOMOTIVE BUSINESS VARIES SIGNIFICANTLY FROM MARKET TO MARKET

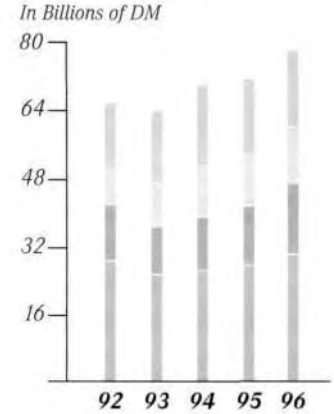
Against the background of slow growth in the world economy, the development of the automotive markets that are important to us was highly varied in 1996.

For instance, sales of new passenger cars in Western Europe rose by almost *7%* to 12.8 million vehicles. In North America, a slight drop was recorded in the passenger car market despite the favorable economic situation, while sales in Japan were up 5%. The development in various countries of Eastern Europe remained dynamic. Important markets in the Asian region, on the other hand, were not able to continue the brisk growth of the previous years, especially in the sales of luxury cars. Demand for passenger cars in Mexico began to recover from the very low level of activity, and slight growth was recorded in the South American markets as a whole.

All in all, the upward trend in the Western European commercial vehicle market continued in 1996, but the truck sector became a great deal more sluggish in the second half of the year. The growth was primarily contributed by vans under 6 tons, while sales of trucks over 6 tons failed to reach the previous year's level.

The development of the overseas markets was characterized by a noticeable decline in demand for medium- and heavy-duty trucks in North America. In Brazil, too, demand for commercial vehicles was weaker. In contrast, the market situation in Mexico and Argentina achieved greater stability again in 1996.

Revenues by Regions
In Billions of DM



REVENUE SIGNIFICANTLY INCREASED

The development of our vehicle business was significantly more favorable than in the automotive industry in general, above all because of the many successful new products we introduced to the market.

Revenue was up 8% to DM 77.6 billion. We achieved double-digit growth rates both in Europe and in Japan. At DM 30 billion, our revenue in Germany was 6% higher than in the previous year and in the USA we also recorded a 6% increase, to DM 12.6 billion.

The foreign share in our business volume was unchanged at 61%; the share contributed by Western Europe outside of Germany was 23%. We generated 16% of our earnings in the USA and 4% in Japan.

Revenue in the Passenger Car Division increased by 14% to DM 45.9 billion, while earnings in the Commercial Vehicle Division stabilized at the 1995 level at DM 31.7 billion.

PASSENGER CAR DIVISION EXPANDS MARKET POSITION

Sales of the Passenger Car Division increased worldwide to 645,000 passenger cars and off-road vehicles, setting a new record in the company's history (1995: 590,200 units). We achieved double-digit growth rates in numerous important markets, and thus noticeably improved our position worldwide in the market for luxury cars. The E-Class contributed the majority of this growth; its sales increased by 46% to 291,500 vehicles.

Sales of passenger cars in Germany, at 264,000 units, were 10% higher than in 1995. Because sales in the luxury car segment increased by only 3%, our market share in this category rose to 26%. Mercedes-Benz had an 8% share of the overall market, which was also noticeably higher than in the previous year (7.5%).

Outside of Germany, we sold nearly 381,000 Mercedes-Benz passenger cars in 1996, surpassing the previous year's record by 9%.

Business remained successful in the Western European markets outside of Germany, where we increased sales by 10% to 174,000 vehicles and continued to expand our market position.

In the United States, Mercedes-Benz once again came close to the 1986 record. A total of 90,800 passenger cars were sold, which represents an 18% increase over the previous year. Since the market for luxury cars rose by only 2% in the USA, our share in this segment climbed to 10.1% (1995: 8.7%).

In Japan, our new car sales increased by 17%, reaching a new high of 41,000 units. In the process, our market share in the luxury class rose to approximately 10%.

The new CLK Coupe is distinguished by its dynamic appearance and its numerous technical innovations.

In Eastern and Southern Europe, Latin America, the Middle East, Australia, South Africa, and Canada, our sales also surpassed the previous year's level. In the important markets in the Far East, however, we were not able to repeat the remarkable volume of 1995 due to weak overall demand for luxury cars.

In response to the growing demand for our passenger cars and the successful production startup of the new T-Models of the C- and E-Class and the SLK roadster, we were able to ramp up our production output to 645,200 units (1995: 600,300 units) in 1996.

SALES REACH A RECORD LEVEL IN THE COMMERCIAL VEHICLE DIVISION

The Commercial Vehicle Division sold a total of 348,100 vans, trucks, buses, and Unimogs in the year under review, outdistancing the record level of 1995 by another 9%.

The development of the Vans Europe unit was especially encouraging; its sales increased by 32% to a total of 151,100 units. This success was predominantly related to the new Sprinter and Vito vans. Although we experienced temporary bottlenecks in delivery because of the tremendous demand for these vehicles, our share in the Western European van market jumped from 12.7% to 15.5%.

Because of the difficult market conditions in Western Europe, and, in particular, because of buyer resistance in anticipation of the model change in the heavy-duty truck class, sales of the Trucks Europe unit dropped to 64,400 units in 1996 (1995: 70,000 units). While our market share fell to 23% (1995: 25%), we were still able to assert our position as the market leader for trucks over 6 tons in Western Europe. The new heavy Actros truck, which we introduced at the IAA commercial vehicle show in September 1996, was named Truck of the Year 1997.

Our American subsidiaries, which we have consolidated within the Nafta Commercial Vehicles and Latin American Commercial Vehicles units, were not quite able to keep up with the sales level of the previous year due to the challenging situation in the local markets as a whole. The North and South American facilities sold a total of 123,400 commercial vehicles.

The Freightliner Corporation, however, maintained the record sales level of 1995 by selling nearly 75,000 vehicles in North America. Because the overall market for trucks in Classes 6 to 8 (over 8.8 tons) shrank by 12% in North America after years of growth, Freightliner's market share climbed to 22% (1995: 19%).

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

Not least because of the success of the new Century Class, which was launched in October 1995, Freightliner was able to significantly expand its market position in the heavy-duty Class 8 (over 15 tons) to a 29% share (1995: 26%). However, the dramatic setback in the market meant that even Freightliner's sales dropped to 53,900 units (1995: 63,200 units). Nonetheless, the pleasing growth in Classes 6 and 7 compensated for the lower sales.

Mercedes-Benz do Brasil asserted its position in the Brazilian market in the category of trucks over 6 tons, where it now holds a 39% share (1995: 38%). In the bus sector, it even expanded its share to 70% (1995: 67%), but suffered noticeable declines in sales due to the weak condition of the market in general.

Business was favorable on the whole for our companies in Argentina and - albeit from a low previous level - in Mexico. Primary factors included both the market situation in general and the attractive new products we introduced in these markets.

Thanks to its successful double-nameplate strategy, EvoBus GmbH managed to increase its sales by 11% in 1996. A total of more than 6,400 Mercedes-Benz and Setra buses in the category over 8 tons were delivered, as well as 900 Mercedes-Benz chassis. In Germany, we were able to expand our total market share slightly to 36% for Mercedes-Benz and 22% for Setra. Our market share in Western Europe remained at 16% for Mercedes-Benz and 9% for Setra.

We produced a total of 340,700 commercial vehicles worldwide in 1996 (1995: 329,700 units). The lower production volume in the trucks sector was more than offset by the significantly higher volume of vans. Production of buses and bus chassis reached another record level at 34,000 units (1995: 27,800 units).

PRODUCT DRIVE PURSUED MORE INTENSIVELY

The year 1996 was marked by the introduction of numerous new products and assemblies.

Obligation to tradition: The T-Modet of the E-Class is a trendsetter in its class. It has all of the characteristics of the successful sedan, including attractive design, innovative technology, and customizable features, as well as generous and versatile interior space for family needs and recreation.

The Sprinter is an example of maximum customer orientation. Its variety and efficiency can hardly be beaten. Thanks to the market success of the Sprinter, Mercedes-Benz managed to increase its market share in the Western European van market from 12.7% to 15.5%.

In the Passenger Car Division, the new T-Models of the C- and E-Class were launched in March 1996, followed by the SLK roadster and the V-Class, a minivan produced on the same platform as the Vito at our facility in Vitoria, Spain. We will be expanding our product range in 1997 with the CLK coupe, the compact A-Class, and the M-Class, an all-wheel-drive sport/utility vehicle manufactured in the USA. We will also launch the new V-engines, which will make our range of drive assemblies significantly more attractive. The product drive will be continued in 1998 with the introduction of the Smart, a compact vehicle designed for urban traffic that will be sold as an independent nameplate.

In the Commercial Vehicle Division we revamped our entire van line in 1995 and 1996 and expanded it with vehicles in the 2.0 to 2.7 ton range. The most important product innovation in 1996 was the Actros, the new heavy-duty series at Mercedes-Benz. Other new products in 1996 were the Unimog UX 100, four new buses assembled by EvoBus GmbH, the MB 800 light truck, which was developed in Turkey and is now produced there;, and an updated truck manufactured in Brazil. The Actros construction-site vehicles will be introduced to the Western European truck market in fall 1997 and the new light truck class in 1998.

GLOBAL PRESENCE EXPANDED

We made new progress in the globalization of our activities in 1996, thus creating the conditions for opening up new markets. An important milestone for our intensified involvement in South America was the decision to construct a new passenger car plant in Juiz de Fora, Brazil. The A-Class will be produced there for the Latin American market starting in 1999. In the Commercial Vehicle Division, we began assembling the Sprinter in Argentina and the Vito in Poland. Moreover, a joint venture agreement was signed for the production of Mercedes-Benz buses in China.

TARGETED MEASURES TO INCREASE EARNING POWER INTRODUCED

We introduced comprehensive measures to reduce costs and boost productivity in order to reinforce our earning power in the automotive business. We concentrated on the Trucks

Europe and Drivetrains Europe units as well as the Unimog production in Gaggenau, Germany. Our new products - with which we have achieved substantial cost advantages as compared to the predecessor models - are a decisive part of this effort. For instance, we have already significantly improved our cost position in the Trucks Europe unit with the Actros, primarily because of the more efficient overall concept with its greatly reduced parts count and leaner production processes. At EvoBus GmbH, the production network between the plants in Mannheim, Ulm/Neu-Ulm, and Ligny is opening up new potentials for cutting costs.

SUCCESS THROUGH PARTNERSHIP WITH SUPPLIERS

As part of the TANDEM co-operation concept, we have intensified our cooperation with supplier companies at all levels in the past few years. Suppliers are now involved in the development of new-generation vehicles at a very early stage, and we are also transferring more and more responsibility for the development and production of complete systems to our suppliers.

Not least because of the constructive cooperation with the supplier industry, we have succeeded in shortening the product development process by approximately 15%. But our suppliers have also contributed to the improvement of our cost position for existing and new products.

Our purchasing structures were expanded worldwide in connection with the globalization strategy of our automotive business.

Tailor-made for the markets of Latin America: The mid-sized trucks of the new "Série Brasil".

Because of its unparalleled variety of configurations, the Vario can be used for nearly every kind of transport.

Our purchasing volume rose by 7% to DM 50.3 billion in the year under review. The increase over the previous year was primarily due to the higher production volume, but it was also related to the lower degree of manufacturing penetration.

F 200 IMAGINATION CONCEPT CAR

The idea of combining design with innovation inspired the development of the F 200 Imagination concept car we presented at the 1996 automotive salon in Paris. The two-door coupe is equipped with futuristic systems that will conceivably be used in high-end Mercedes-Benz models in the coming millennium. In addition, the concept car demonstrates how technical innovations can open new perspectives for the design of future high-end automobiles. The relationship between form and function is therefore especially close in this concept car: it enables the formal and functional experience of technological innovations.

Among the most important innovations on board the F 200 Imagination is a trendsetting driving dynamic system where the driver controls all of the movements of the car with devices called side-sticks that are installed in the door trim panel and central console of the coupe concept car. The F 200 no longer has any of the conventional control or linkage elements such as a steering wheel, steering column, or pedals - the driver's commands are transmitted exclusively through electronic technology. Engineers call this system "drive-by-wire."

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

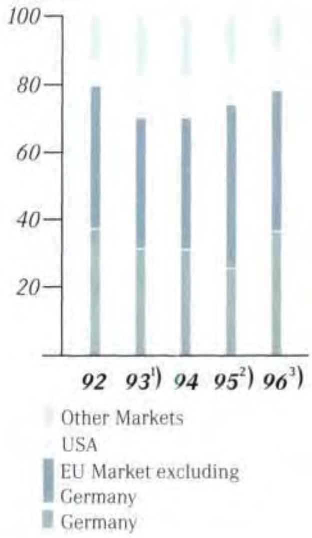
The Aerospace Division (Dasa) expanded its business volume by 13% to DM 13.1 billion. The recovery of the aircraft market was confirmed by incoming orders for aircraft that were three times higher than in the previous year. An encouraging revival of business activity was also observed for Propulsion Systems. In the Space Systems sector we concluded contracts for major projects that will play a key role in the future. We have initiated a restructuring of the Airbus consortium with our partners to reinforce our position in the commercial jet market. The persistent implementation of our competition drive is intended to permanently strengthen earning power. Dasa already managed to improve its contribution to the operating prof it of the Daimler-Benz group from DM-7.2 billion to DM-0.2 billion in 1996.

AIRLINES BEGIN TO TAKE OFF

The growth of the air travel industry continued to stabilize in 1996. In international passenger traffic, an 8% increase was recorded, as in 1995, while growth in the Asia/Pacific region was again above-average at close to 10%. Commercial traffic in Europe continued to develop favorably, rising by slightly more than 8% (1995: 7.8%). In the USA, the increase was comparable to the previous year at just under 4% (1995: 3.5%).

Thanks to the expanding traffic volume and the recognizable success of rationalization measures, the airlines were able to boost their income substantially after the heavy losses experienced in the period between 1991 and 1993 and the first signs of recovery that had become apparent in 1994. The improved earnings situation, the increasing necessity to replace fleets, and the renewed growth in traffic volume led airlines to intensify their purchasing activities significantly. In addition, the aircraft manufacturers are still engaged in fierce competition that is primarily focused on pricing. The situation is advantageous for the airline companies and caused orders for commercial jets with more than one hundred seats to jump to 1,088 units (1995: 562 units). The number of aircraft ordered was thus twice as high as in the previous year, and was once again of a magnitude last experienced at the beginning of this decade.

Revenues by Regions
In Percent



1) In 1993: First consolidation of Fokker
2) Since 1995 excluding Propulsion Systems, Land/Marine Applications and TEMIC
3) Since 1996 excluding Fokker and Medical Systems, as of 07/01/96 excluding Dornier Luftfahrt

Due to persistent cost reduction measures, the European Airbus partners were able to improve their position in international competition with more favorable pricing and increase their market share in the orders placed in 1996 to 39% (1995: 18%).

The downward trend in deliveries came to a standstill. At a total of 397 aircraft, the figure of the previous year was exceeded for the first time in the last four years (1995: 380 units). Airbus Industrie delivered 32% of this total (1995: 33%). In view of the encouraging ordering situation, aircraft manufacturers plan to increase deliveries significantly in 1997.

At the same time as the positive development of the aircraft market, demand for civil jet engines and replacement parts began to recover. Price pressure for equipping new aircraft, however, remained high. Procurement programs for military jet engines were delayed due to the persistently strained situation affecting government budgets. Engine manufacturers are there fore concentrating increasingly on the civil sector, which makes competitive pressure here even higher.

PUBLIC SPENDING POLICY RESERVED

Government spending policy in Germany and other western industrialized countries was again very reserved as a result of the strained financial situation; delays and cancellations of planned programs were necessary, above all

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

in the guided missile sector, which is causing additional adjustment pressure in that area. The defense budget may for the defense industry cannot be expected in the next few years.

To complicate matters in the European defense industry, competitors in the USA are joining forces to form large and capable organizations. The European industry's response to this new challenge can be only limited at best as long as national interests take precedence over sensible economic measures.

The government funds provided for space research remained below the previous year's level. Due to financial bottlenecks in France and Germany, no funding was available for the satellite-based reconnaissance programs planned by the two countries. The same applies to the urgently needed military transport jet for Europe.

Because government funding is still limited, aerospace companies worldwide have been concentrating on commercial global satellite and carrier markets. In commercial communications, the most important market for satellite applications, the demand for satellites increased yet again in response to the new communications services, the deregulation of the markets, and the opening up of additional regions.

20 years of Texus: Within the framework of this program for the exploration of weightlessness, 35 takeoffs with nearly 400 experiments were successfully performed until the end of 1996.

Despite intensified harsh price competition, the European aerospace industry was able to expand its position in the commercial satellite and carrier market.

The procurement of military helicopters is still highly limited. In the civil market for helicopters, on the other hand, a recovery became apparent in 1996, but because of existing overcapacities competition in this sector remains fierce.

SIGNIFICANT REVIVAL OF BUSINESS

After making adjustments for substantial changes in the consolidated group, the revenue of the Aerospace Division rose 13% to DM 13.1 billion (1995: DM 11.5 billion). Increasing revenues from the civil jet engine sector and high invoicing for military jets and space projects contributed to this growth.

Revenue in Germany, which at DM 4.2 billion (1995: DM 3.6 billion) represented approximately 32% of total revenue, was up 14%. Significant factors included extensive invoicing for services in the Eurofighter development program and higher sales of jet engines. Foreign revenue grew 13% to DM 8.9 billion (1995: DM 7.9 billion). The increase in revenue from the USA was above average (+35%) as a result of expanded deliveries of engine components.

We achieved vigorous growth in incoming orders; when comparably calculated, the increase was the equivalent of 56% to DM 17.1 billion (1995: DM 10.9 billion). What was decisive here was above all the upward trend in the civil aircraft business, which was accompanied by a brisk upsurge in orders for commercial jets. But in the helicopter segment, too, incoming orders were significantly higher than in the previous year. The Space Systems unit booked several major contracts for long-term projects, such as the COF space station module and the ERS successor program Envisat 1.

When comparably calculated, revenue in the Aerospace Division increased 14% to DM 6.0 billion (1995: DM 5.3 billion). While revenues from the Airbus program were below the previous year's level due to a different product mix, the invoicing of services for the Eurofighter 2000 development program and deliveries of Tornado subassemblies led to an especially vigorous surge in revenue in the military aircraft sector. Another significant growth factor was the helicopter sector, where the revival of business with civil helicopters more than offset the decline in military programs. Customer orders in the Aircraft unit rose by 69% to DM 8.9 billion in 1996 (comparably calculated; 1995: DM 5.2 billion), primarily as a result of the doubled contract volume at Daimler-Benz Aerospace Airbus.

In the Space Systems unit, we recorded a gratifying 14% increase in revenue to DM 2.1 billion (DM 1.8 billion) because of invoicing for a number of large projects. Among the most important contributions to this growth were the Envisat, COF (Columbus Orbital Facility), Ariane, Globalstar, and Nahuel space programs. Customer orders, at DM 3.6 billion (1995: DM 2.0 billion), were 78% higher than in 1995. This was primarily due to the contracts with a volume of over one billion German marks concluded for the development of the Columbus research station.

In the Defense and Civil Systems unit, revenue remained at the previous year's level at DM 2.6 billion. But the development was highly varied in individual areas. Customer orders increased markedly by 21% to DM 2.4 billion (comparably calculated for 1995: DM 2.0 billion). The information systems and sensor systems segments made the most significant contribution to the expansion.

The revenue generated by the Propulsion Systems unit was up 33% to DM 2.3 billion (1995: DM 1.7 billion). The higher demand on the part of the airlines for jet engines, replacement parts, and maintenance services caused revenue from the civil sector to increase by 41%. In the military business, revenues grew 27% due to the higher sales of replacement parts and the delivery of RB199 engines for Tornado aircraft. Customer orders rose 31% to DM 2.1 billion (1995: DM 1.6 billion). Primarily because of another delay in the production contract for the EJ200 development program (engine for the Eurofighter), we recorded lower orders in the military sector. This was offset by higher orders for jet engines and replacement parts in the civil market.

The antenna for the next-generation radar: The Active Phased Array Radar with Gallium-Arsenide technology, a German-French joint venture with major participation of the Dasa Radarzentrum Ulm. For the development of a market-ready passenger car distance radar, Dasa was awarded the Innovation Prize of German Business in 1996.

EARNING POWER STRENGTHENED

In the period from the founding of Dasa in 1989 until 1995, the U.S. dollar lost 24% of its value as compared to the German mark, which weakened the competitiveness of the civil aircraft and jet engine construction business above all. Toward the end of the period, the dollar's impact was especially dramatic. This led us to introduce a competition initiative in 1995 in order to restore the earning power of all corporate units active in the world market even at times when the dollar is weak. In 1996, we were able to conclude agreements with the employee representatives at Daimler-Benz Aerospace Airbus and MTU in Munich that will allow us to successfully achieve the planned cost reductions by the end of 1997. Aside from the unavoidable personnel cutbacks, the agreed-upon package includes the introduction of new organizational structures with shorter reporting and decision-making channels and the implementation of location-specific, flexible working time models. Moreover, we divested the Peißenberg plant and created an independent corporation in anticipation of the sale that was also decided as part of the competition initiative. The Speyer plant became an autonomous entity as well, and effective January 1, 1997, was taken over by its employees.

Since 1977, MTU München has been involved in the development and production of the PW2000 engine.

After discontinuing our financial support for Fokker in lanuary 1996 and transferring the control of Dornier Luftfahrt GmbH to the American regional aircraft manufacturer Fairchild Aircraft Inc. in June 1996, we withdrew from direct business activities in the regional aircraft sector. Fairchild is globally established and manufactures the 19-seat Metro turboprop aircraft. The new partner sees an opportunity to expand the worldwide market position of the Dornier 328 as part of its product family.

In February 1996, we sold our majority stake in Dornier Medizintechnik to Singapore Technologies, which plans to increase its involvement in this sector in the future. We transferred Extel Systems Wedel GmbH (ESW), a company that is not one of our core businesses either, to management and an investment group. The transfer was retroactively effective January 1, 1996. Our fifty percent share in Angewandte Solarenergie ASE GmbH went to our former partner in this joint venture, Nukem.

AIRBUS CONSORTIUM REORGANIZED

In a memorandum of understanding, we agreed with our partners Aerospatiale, British Aerospace, and Casa that the existing Airbus consortium will be converted to a corporation by the year 1999.

Unlike the existing Airbus consortium, which is primarily responsible for marketing, sales, and product support for the Airbus aircraft, the future company - controlled by a joint European management structure - will have comprehensive corporate responsibility for all development, production, and sales activities of the entire Airbus program, including profit responsibility. In 1997, the four Airbus partners, who will also be the shareholders of the new corporation, will review which of their activities should be included in the new entity.

This decision is at the same time an important step toward the consolidation of Europe's aerospace industry, an effort that in consideration of the latest development in the advancing process of concentration within this sector in the USA is gaining special significance.

Fiscal 1996 was highly successful for the Services Division (debis). As in the previous years, we succeeded in substantially expanding our business volume in this division. The Financial Services, Insurance Brokerage, IT Services, Telecommunications and Media Services, Trading, and Real Estate Management units generated revenues totaling DM 13.1 billion (+12%). The results of this division continued to develop favorably as well. Its contribution to the operating profit of the Daimler-Benz group rose to DM 288 million.

SERVICES: ENGINE OF ECONOMIC GROWTH

In the past few years, a far-reaching transition has shifted the value-added structure in all of the industrialized countries toward the service sector. In the coming years, the trend toward a service-oriented society will be even more pronounced. Although the development of the overall economy in Germany clearly failed to meet expectations and the only encouraging trend was in exports, the service sector still progressed satisfactorily on the whole. In the first half of 1996, the value added in the service sector surpassed the contribution of industrial undertakings. The potential for services is far from exhausted. Compared to other industrialized countries, Germany still needs to catch up in the service sector. While industry contributes 35% to the German gross national product, its share in the overall economic value added in other major industrialized countries such as Japan, the USA, and France is already significantly lower.

Revenues by Regions
In Percent

	95 in %	96 in %
Germany	55	56
EU excluding Germany	11	11
USA	28	29
Other Markets	6	4

REVENUE INCREASED SIGNIFICANTLY AGAIN

At debis, revenue rose 12% in 1996 to DM 13.1 billion. As in the previous years, all of the business units were able to substantially increase their revenues. The Financial Services/Insurance Brokerage unit again contributed the largest share to consolidated revenue. Due to the first-time consolidation of newly acquired companies in the IT Services unit and of the French leasing and financing company Mercedes-Benz Financement, which in 1995 was still included at equity in the Daimler-Benz consolidated financial statements, revenue increased by approximately DM 400 million. This was offset by a reduction in revenue in roughly the same order of magnitude as a result of the disinvestment of the Marketing Services unit.

The development in the individual markets was quite varied. The growth in the EU countries outside of Germany was especially pleasing; we succeeded in boosting our revenue in this region by 40% as compared to the previous year to DM 1.5 billion. Revenue in North America rose only slightly. We generated 56% of our revenues in Germany, 11% in the EU outside of Germany, 29% in North America, and 4% in the other markets. The expanded range of services offered in all business units and the internationalization of our activities formed the basis for this very favorable development. The encouraging growth at Mercedes-Benz had an advantageous effect on the leasing and financing business for vehicles.

POSITIVE DEVELOPMENT IN ALL BUSINESS UNITS

The Financial Services/Insurance Brokerage unit had a highly successful year in 1996. We increased our contract volume for financial services by another 27% to more than DM 33 billion, and thus service a total of 676,200 units worldwide (1995: 570,900 units). Our companies in Germany, Great Britain, and the USA figured especially prominently in this positive development, debis Financial Services expanded its business base and laid the groundwork for additional growth by opening up new markets and targeting new customer groups, above all in Eastern Europe and in the Asia/Pacific region. The debis leasing companies also played a decisive role in the overall expansion; their focus was predominantly concentrated on financing solutions for corporate products in the non-automotive sector.

Business relations with Adtranz are becoming increasingly significant as Adtranz is making increasing use of our know-how and the services we offer in intelligent financing. We also expanded our activities in financial engineering, most importantly in the tax-oriented leasing fund. Businesses in the public sector are also becoming more important to us.

In our insurance activities we achieved noticeable growth in all sectors. Business with corporate customers, which makes up 57% of total revenue, increased by 20% to DM 59 million. We thus succeeded in securing our position in Germany as a leading technology-based insurance brokerage for the trade. We also expanded our business with private customers to DM 13 million. The premiums collected reached a total of DM 926 million by year-end.

In the IT Services business unit we continued the upward trend of the previous years. Revenue and sales were up yet again, with all divisions contributing to the 20% growth in revenue to DM 2.4 billion. We succeeded in increasing business with companies outside of the Daimler-Benz group, and we now generate 58% of our revenue from non-group customers. The expansion of our innovative, industry-specific comprehensive solutions has proven to be extremely successful. This meant we were able to greatly expand the number of high-volume contracts in the past year. At the same time, trendsetting new services were placed on the market, including solutions for using the Internet as an electronic marketing tool, for making the transition from the mark to the euro, and for adjusting software programs to the year 2000. We have also increased our offers of IT solutions for municipalities, states, and federal governments, debis has, for instance, become actively involved in the German lean government project supervised by Prof. Dr. Scholz.

Our Telecommunications and Media Services unit is active in a dynamic growth market. The positive trend in this unit was supported by the development in the cellular communications sector, debitel succeeded in nearly doubling its customer base to more than one million and taking the lead among network-independent cellular communications providers in Germany and Europe. The revenue of the group climbed 73% to DM 1.6 billion.

As in the previous years, business developed favorably in the Trading unit, which is primarily engaged in countertrade activities. We were able to provide the means for exports valued at DM 556 million in weak currency countries. Our 95 employees (1995: 90) generated revenue that rose 11% to DM 445 million. Aside from merchandise trading, commodities trading was our second-most important source of revenue.

The primary focus of the Real Estate Management unit is overseeing the construction of the Potsdamer Platz project in Berlin. Because some of the first sections of the complex will be completed and occupied as early as 1997, we have stepped up marketing for the office facilities and residential units. debis AG and nearly 600 of its employees will move into their new headquarters on Potsdamer Platz in September 1997. We have also provided construction management services for non-group customers. This includes the Spittelmarkt project, also in Berlin, the development of a residential community in the Ahrensdorfer Heide region, and the supervision of other projects in Germany.

NEW HOLDING STRUCTURE AT CAP GEMINI

In spring 1996, we agreed on changes in the holding structure at Cap Gemini Sogeti together with the other principal shareholders, debis now holds a 24.4% share in the new Cap Gemini and is directly involved in the company's decision-making process via the management and supervisory boards.

The new structure already had a positive effect on the development of the company in the first year. The group's revenue increased 15% to FRF 15.9 billion. But even more importantly, Cap Gemini managed to improve its earnings significantly in fiscal 1996. Because of our participation quota, the company is included in the consolidated financial statements at equity.

FOCUSING THE PORTFOLIO

In the course of reviewing the corporate portfolio, we have decided to withdraw from our activities in the Marketing Services unit because its focus is not among the core competencies of the Daimler-Benz group. In order for this unit to secure its market position and catch up with the market

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

leaders, substantial investments having no defensible relation to the strategic significance of this business unit would have been necessary.

In cooperation with management, which had been successful in the past, we reorganized the operating units as part of a management buyout. The existing jobs were thus largely preserved and - as a result of staff continuity - existing relations with customers were maintained.

debis is well-prepared for the tasks of the future with its present business structure. The mainstays of debis are Financial Services and Insurance Brokerage, IT Services, and Telecommunications and Media Services. They are complemented by the Trading and Real Estate Management units.

GLOBALIZATION CONTINUED

In 1996, the Services Division vigorously pursued the globalization of its activities that had been inaugurated in the previous years. The increased international involvement targets the growth markets of Southeast Asia as well as Eastern Europe. We have continued to intensify our activities in the CIS countries, most notably in Russia. The Trading unit supports the CIS countries in financing projects and acquiring investment goods. In the IT services sector, we have already been active in St. Petersburg since 1994. We will develop software for the Russian market in a joint effort with the University of St. Petersburg.

We are also emphatically concentrating on opening up markets in Southeast Asia. The Financial Services/Insurance Brokerage unit has laid the groundwork for the additional expansion of the leasing and financing business in the Asia/Pacific region. We have established companies in Thailand, Singapore, Hong Kong, Taiwan, and Australia to support the sales of corporate products, in particular Mercedes-Benz passenger cars and commercial vehicles. This region is a strategically important market with substantial growth potential for the Services Division and for the Daimler-Benz group as a whole.

Even when it comes to complex financing solutions, debis Financial Services is a reliable and competent partner. There are two reasons why our offers have no limits: First, because our companies operate on a worldwide basis, and second, because there is nothing that cannot be financed - from the SLK roadster to a ferry which is powered by MTU engines.

Adtranz, the joint venture for rail products in which ABB and Daimler-Benz each hold a 50 percent stake, completed its first full fiscal year in 1996, with revenue totaling DM 5.7 billion. The Microelectronics business unit managed to increase its revenue by 12% in 1996, reaching DM 2.5 billion. TEMIC profited from the high demand for vehicle electronics applications related to the favorable automotive market. Net income was reduced by regressive pricing in the semiconductor business and by start-up contracts in vehicle electronics. The MTU/Diesel Engines unit boosted its revenue by 11% to DM 1.6 billion. Aside from the expansion of business, the improved cost structures led to a very gratifying increase in earnings. The directly managed industrial affiliates contributed a total of DM-585 million to the operating profit of the Daimler-Benz group.

RAIL SYSTEMS

GROWING MARKET FOR RAIL SYSTEMS

Adtranz, the joint venture held by Daimler-Benz and ABB, generated revenue totaling DM 5.7 billion in its first full fiscal year. Customer orders reached DM 5.7 billion as well.

The worldwide market for rail systems and products developed positively on the whole. Economic and environmental considerations mean that the growth in passenger volume for both local and long-distance traffic cannot be accommodated by individual travel alone. Because the operation of rail systems is relatively energy efficient and therefore environmentally friendly, this sector has extremely high growth potential. In Europe, for example, high-speed trains are increasingly being put into service. The dynamically developing urban areas represent a growing market for turnkey rail systems.

Adtranz continued to expand its position in key markets in fiscal 1996. Joint ventures were founded in China with Shenyang Railway Signal Factory and Changchun Car Company. In addition, companies in the signal systems and track-bound products sectors were acquired in Great Britain, Germany, India, Poland, Hungary, and various African countries.

Adtranz has created the conditions for profitable growth in the coming years with its strong global network and technological expertise, and with the active support of its two parent companies, ABB and Daimler-Benz.

MASS TRANSIT

In the mass transit sector, Adtranz took advantage of its wide product range and global presence to win important contracts in the promising Asian market. At the same time, Adtranz reinforced its leading position in Europe and North America.

Adtranz supplies automated turnkey transit systems for driverless operation to Singapore and the Malaysian capital Kuala Lumpur. In Shanghai, China, Adtranz received a follow-up order to develop the first phase of the municipal subway system. The deliveries comprise 35 trains with five cars each, together with the relevant traction current and signal systems. Adtranz supplies tramways to numerous cities in Europe and North America with a light-weight construction that improves passenger comfort and reduces operating costs.

REGIONAL AND INTERCITY TRAFFIC

The growing demand for reliable and cost-efficient regional high-speed trains connecting urban centers with the surrounding areas and with important regional junction points provides attractive market opportunities for Adtranz. We received orders from Germany, Great Britain, the Scandinavian countries, and Australia for regional vehicles with high-powered traction systems and flexible vehicle construction and for signal systems equipped with telecommunications technology.

High-speed trains with top speeds of over 250 km/h are an interesting alternative to air travel for quick intercity connections. In this sector, Adtranz is maintaining its long-standing cooperative ventures with regard to the German ICE and the Italian ETR500. Adtranz also delivers trains with tilt technology that can handle curves in the existing railway network some 30 percent faster than trains with non-tilting cars. Adtranz manufactures the VT 611 railcar train with active electric tilt technology for Deutsche Bahn AG. Some technical problems were experienced when the vehicles were first put into operation. Following an intensive joint review by Adtranz and Deutsche Bahn AG, the trains will start regular operation in May 1997, in time for the schedule change. Adtranz also received contracts from Sweden and Switzerland, and in Southern China, Adtranz concluded a leasing agreement for a tilting train that will be delivered in 1998.

In order to meet the market demand to improve service on non-electrified lines, Adtranz in a joint venture with General Electric in USA have designed and built a light weight locomotive, the "Blue Tiger". An order for 30 locomotives was placed from Pakistan Railways.

In the important electric locomotive sector, Adtranz won a contract from Italy for the delivery of state-of-the-art three-phase electric locomotives. Electric locomotives from the new 101 Class are being delivered to Deutsche Bahn.

SIGNAL SYSTEMS AND CUSTOMER SERVICE

Train operators using the latest signaling and operation control systems from Adtranz are able to react optimally to changes in rail travel, and this is an essential prerequisite for the competitiveness of any carrier. Major contracts were secured for signal systems in Sweden, Great Britain, Germany, Spain, Russia, India, and Brazil.

For many train operators, extending the service life of existing track-bound vehicles is a cost-effective alternative to purchasing new equipment. For these customers, Adtranz has established an efficient, worldwide technical service network that offers comprehensive services for upgrading and retrofitting trains. Major contracts for this sector came from Eastern Europe and Africa in particular.

DEVELOPMENT WORK INTENSIFIED

Driverless and wholly automated vehicles for transporting passengers are gaining increasing importance in rail travel. Together with Daimler-Benz Research, Adtranz North America is developing new vehicle concepts featuring enhanced passenger comfort, higher transportation capacity, and contemporary design. When combined with advanced electronic lane guidance systems, significantly lower mileage costs can be achieved. In the development and testing phase, moreover, expenses are reduced significantly with the use of high-performance models and simulation technologies.

Rail travel costs have been reduced by shifting operation control functions from the rails to the train and by using radio as a signaling medium. Adtranz is a key player in Europe in the exploration and realization of this technology. In collaboration with European railroad companies and Daimler-Benz Research, Adtranz is testing key technologies for future operation control systems, such as cost-efficient satellite-based tracking and navigation, automated materials-handling technology, and model-based process management. Pilot operation together with Deutsche Bahn AG featuring the new radio-controlled operation control systems is planned for startup in 1998.

MICROELECTRONICS

REVENUE 12% HIGHER

The Microelectronics business unit, which consists of the Semiconductors, Vehicle Electronics, and Gas Generators units, received customer orders totaling DM 2.3 billion in 1996, and was thus able to maintain the high level experienced in the previous year. Revenue increased 12% to DM 2.5 billion. Although business in the semiconductor sector was marked by a sharp fall in prices in connection with the overall contraction of this market, TEMIC succeeded in slightly increasing its revenues in this unit thanks to strong volume growth. The Vehicle Electronics unit profited from the brisk activity in the automotive business and was able to expand its earnings dramatically by 30%. The Gas Generators unit also achieved double-digit growth.

Because of the changing market situation in the gas generator sector, which is characterized by an increasing number of manufacturers who are joining together, we decided at the end of 1996 to divest this mechanics and pyrotechnics unit and concentrate our vehicle equipment efforts even

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

more than previously on vehicle electronics. A modified management concept was chosen for the Microsystems unit; the change entails the partial withdrawal from this activity and the allocation of the remaining activities to the Vehicle Electronics unit.

MICROELECTRONICS COMPETENCY CENTER

In order to meet the challenges of the global market, TEMIC positioned itself in attractive markets early on and shifted capacities to regions where production costs are competitive or established new facilities there. For instance, for more than twenty years TEMIC has been operating its largest production facility in Manila, Philippines, where semiconductor chips are installed and tested and various electronic motor vehicle components are produced. TEMIC has been supplying the NAFTA market with vehicle electronics manufactured at the Cuautla plant in Mexico since 1995.

TEMIC is the competency center for microelectronics within the Daimler-Benz group. TEMIC's contribution is vital in our effort to be ahead of our competitors in launching vehicle electronics innovations in the passenger car and commercial vehicle sectors. At the same time, TEMIC is present in the free market as an independent company. More than 80% of its revenue is generated from outside customers. Around half of TEMIC's business volume comes from Europe and just under a quarter each from Asia and North America.

NEW STRUCTURE IN THE SEMICONDUCTOR UNIT

A new structure was introduced in the Semiconductor unit in 1996, which has made it possible to differentiate clearly between the two product areas integrated circuits (ICs) and discrete components. The objective of the new structure is to establish even greater customer proximity. We plan to achieve double-digit growth rates each year in the future. Because of high demand for power MOS semiconductors, which until now TEMIC has manufactured exclusively in Santa Clara, California, we will open a new production facility in Itzehoe in the first of 1997. We have strengthened our presence in the Chinese growth market with additional joint ventures in Shanghai.

INNOVATIVE VEHICLE ELECTRONICS PRODUCTS

We expect the strong growth in the Vehicle Electronics unit to continue in the future. This growth will primarily be supported by innovative products for drive systems, comfort enhancement, chassis systems, as well as ABS and airbag systems. They are being developed with external partners and with the Passenger Car and Commercial Vehicle divisions at Daimler-Benz. The products include state-of-the-art diesel injection systems, electronic stability programs, airbag deployment systems, and sensor technology. The innovative competency of this unit is underscored by the fact that for three years the majority of its revenue has been generated with products that are not yet available on the market. In the year under review, we founded the two subsidiaries TEMIC Automotive Electric Motors GmbH, in Oldenburg and Berlin, and Automotive Distance Control Systems GmbH (ADC), in Heerbrugg. The new companies develop and manufacture electric motors for the automotive industry and automotive distance control systems using radar and infrared technology.

MTU/DIESEL ENGINES

PRESENTATION OF THE NEW ENGINE SERIES

The MTU/Diesel Engines unit consists of MTU Motoren- und Turbinen-Union Friedrichshafen GmbH with its subsidiaries. MTU is a leading manufacturer of compact high-performance diesel engines for ships, track-bound products, off-highway vehicle applications, and decentralized energy systems. Moreover, the MTU group manufactures drive shafts for passenger cars and light commercial vehicles and injection systems for large diesel engines. Fiscal 1996 was dedicated to the preparations for the market introduction of the 2000 and 4000 series developed together with the American partner Detroit Diesel Corporation. At the same time, MTU expanded its regional market presence. An important facility for sales and service activities in the dynamic Chinese growth market was added to the sales network with the newly established sales subsidiary in Suzhou, Shanghai.

By expanding business in Germany as well as in the growth markets in Asia and North America, the Diesel Engines unit managed to increase its revenue by 11% to DM 1.6 billion and also achieved noticeable growth in customer orders. We introduced focused efforts to continue to reduce costs in response to the persistent price pressure of our competitors. These efforts were instrumental in achieving the significant improvement of earnings.

GROWTH COURSE CONTINUED WITH PROPULSION SYSTEMS FOR SHIPS

Propulsion systems for ships contributed more than half of the revenue generated by the Diesel Engines unit. Demand for large, high-speed ferries was especially brisk in 1996. The MTU group achieved a worldwide market share of over 60% in this segment. More than 130 large engines and gas turbines having a total output of 800,000 kW were already sold in this segment. Business in Asia was particularly successful. MTU managed to gain access to the Japanese market for the first time with two contracts for large engines.

Worldwide demand for navy and government ships again failed to revitalize in 1996. Revenue and customer orders remained at the level of the previous year. An important contract was the complete propulsion system including marine sets for the new F 124 frigate generation of the German Navy. MTU expects another slight recovery worldwide in procurement programs for navy and government ships in the coming years.

OTHER APPLICATIONS ALSO SUCCESSFUL

We experienced a noticeable revival in business with diesel-powered track-bound vehicles. In addition to the motorization of new vehicles, the updating and retrofitting of old vehicles is also gaining importance. MTU received significant follow-up contracts from Deutsche Bahn AG and from Asia.

In the dump truck sector, the trend toward increasingly larger vehicles with higher payloads continued in 1996. To handle the special power requirements, the MEGA dump trucks with up to 310-ton loading capacity are equipped with MTU engines, which guarantees high availability and reliability even under extreme weather conditions.

Decentralized electric supply companies are increasingly depending on environmentally compatible, low-emission diesel-engine and gas-turbine systems. MTU delivered a gas-turbine system for Gottingen University that generates steam and hot water from the turbine's exhaust gas using combined heat and power generation technology.

Budget cuts and export restrictions were responsible for stagnant demand in the military vehicle sector. Nonetheless, MTU achieved higher market shares with the newly developed 880 engine series thanks to a large contract from the German Army among other things.

The brisk demand for injection systems produced by our subsidiary L'Orange continued, with most orders coming from outside of Germany. The development of common rail technology is highly important; in 1997 it was used on a large scale for the first time worldwide. Deliveries of drive shafts grew dynamically, especially to Mercedes-Benz AG for passenger cars, vans, and light commercial vehicles. MTU expects another increase in this sector following production startup for new vehicle models.

SORTING AND RECOGNITION SYSTEMS

AEG ELECTROCOM DIVESTED

In the course of focusing the group portfolio on core competencies, we sold our wholly-owned subsidiaries AEG Electrocom GmbH, Konstanz, and AEG ElectroCom International Inc., Irving, Texas, to the Automation Technology unit at Siemens AG, Nuremberg. Siemens will take over these activities with retroactive effect as of January 1, 1997.

AEG Electrocom, which was last managed by Daimler-Benz AG, is a leading supplier of sorting and recognition systems for postal automation. At year-end 1996, it employed 3,400 persons worldwide and generated revenues totaling DM 1.1 billion (1995: DM 0.6 billion).

Shorter development times, lower production costs, and better product quality are the most important objectives in product development. We therefore plan to continue to boost efficiency in these areas by establishing and expanding integrated processes as well as a global network of research, development, and production sites. In this regard, we are increasingly relying on computer-assisted development methods such as theoretical simulation and virtual reality technologies. To integrate the virtual reality tools used group-wide, the Virtual Reality Competence Center was established at the Daimler-Benz Research Center in Ulm in 1996.

WORLDWIDE DEVELOPMENT NETWORK

In the future, product development will be handled increasingly by a worldwide production, development, and research network. The cooperation between research, advance development, development, production, marketing, and sales in the definition and planning of products is also becoming more complex. It is therefore necessary to take conscious advantage of the potentials of sophisticated information technology in the product development phase.

In this connection we use various data, video, and audio communication methods and systems in ongoing product projects to enable the simultaneous development of a vehicle at different locations. At the same time we also explore how development partners who do not have access to our centralized systems can be included in the data network.

COMPUTER-ASSISTED PRODUCT DEVELOPMENT

The Daimler-Benz group is increasingly treating its customers as co-producers in the development of new products. We are entering new realms of communication with our customers by using virtual auto shows on the Internet and virtual showrooms. The possibilities range from purchasing and consulting to the active involvement of customers in the development of new products. Customers can now interactively choose the features they want in a vehicle and experience the product with their specifications on the fly, albeit virtually.

By using a system for the virtual design of vehicle interiors in conjunction with an ergonomics bench test, we are able to study how our customers respond to the interior space, color, and configuration of our vehicles. This tool is meant to provide pointers for the next steps in the development of the product during the planning phase.

In design applications, wooden or clay models are steadily being replaced with virtual reality technologies. Shapes can now be modified within seconds at little to no additional cost. Virtual reality technologies can also be used to explore ergonomic conditions in work environments in the design stage. This is how we optimized the driver's cabin in Adtranz's new commuter train and the control cabin in Dasa's anti-aircraft system among other projects. Applications for this technology in vehicle development include the simulation of crash events and cross-wind sensitivity.

COMPETENCE CENTER FOR VIRTUAL REALITY

In September 1996, the Competence Center for Virtual Reality started its operation at the Research Center in Ulm, Germany. It will support all of the business units within the group as both a research lab and a service center for questions relating to virtual reality technology. The objective is to jointly develop innovative solutions to overcome the gaps between the services offered by commercial virtual reality suppliers and industry-specific requirements. Moreover, the Center will identify problems that recur frequently within the Daimler-Benz group, develop tools that solve problems as universally as possible, and support professional suppliers in software development.

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

In a year marked by extensive changes within the corporate structure, the success of the Daimler-Benz group and the realization of its goals depend on the capabilities and commitment of our workforce more than ever. Our personnel efforts are therefore focused on persuading employees to identify themselves with the objectives of the Company and to emphatically support them. To this end, we need and want to harmonize the interests of the staff and the Company as effectively as possible.

TRAINING AND QUALIFICATION A HIGH PRIORITY

In light of the globalizing markets and increasingly international competition, we need to maintain and strengthen our potential with qualified and capable employees. Training and qualification programs therefore remain a high priority in the Daimler-Benz group. At year-end 1996, the group employed a total of 12,600 trainees and interns. We have also consciously developed the programs designed to expand the scope for making decisions and taking action for all employees. And we are emphatically pursuing our objective to make our personnel cost structure competitive on an international scale.

COMPENSATION SYSTEMS ENHANCED

We are continuously improving the compensation systems for our employees to make them more attractive and align them more closely to the competition. Performance and success orientation will be given more emphasis than before. Beyond individual variable income factors, we are also interested in involving our workforce more effectively in the development and success of the Company. We are also exploring concepts for new forms of social security benefits based on our employees' personal initiative and the related potentials for individualized provisions. In doing so, we hope to maintain the effectiveness and attractiveness of the benefits system within the Daimler-Benz group and at the same time ensure that costs remain manageable.

STOCK OPTIONS INTRODUCED

In many international companies it is customary to offer stock options to management staff. The objective of this type of offer is to give executive personnel a special incentive for performance by involving them in increasing the Company's value, which is generally expressed by the value of its stock. Since 1996, we have offered top management stock options that can be acquired with a convertible bond subscribed from the executive's net income. The response to this offer was extremely positive. We have therefore decided to offer stock options to an expanded group of management staff in the future.

INTERNATIONAL EXPERIENCE GAINS IMPORTANCE

We plan to utilize the competitive advantages associated with our management potential more efficiently than in the past. Job rotation and foreign assignments are the prerequisites for vertical development. In consideration of the increasing globalization of our business activities, international experience is to become an integral part of long-term, individualized personnel and promotion planning. Personnel development has also become a key element in the strategic management of the group's divisions. The quality of management meetings, capabilities assessment, promotion plans, and training programs was further improved by developing our existing management planning system.

STABLE EMPLOYMENT SITUATION IN THE DAIMLER-BENZ GROUP

At December 31, 1996, we employed a total of 290,029 employees worldwide, of which 222,821 worked in Germany. Compared to the total workforce at year-end 1995, the number of employees dropped by some 21,000 persons, primarily as a result of the disinvestments at AEG and Dasa. Without these structural changes, the number of employees remained nearly unchanged. Along with the positive business prognosis in all corporate units since the second half of 1996, the employment situation has also become more stable on the whole.

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

Two important events defined the development of environmental policy in 1996: the implementation of the Eco Audit Ordinance in all operations and the enforcement of the Recycling and Waste Law. The Daimler-Benz group spent a total of DM 960 million on environmental protection in 1996; our investment volume totaled DM 185 million. In the coming years a key focus of our efforts will be to increase the integration of environmental protection in our product and production planning processes. As part of its social involvement, Daimler-Benz is deeply committed to promoting the younger generation. We take our social responsibility seriously and endorse concrete projects and programs to inspire the younger members of our society to expand their horizons.

Eco AUDIT AND ENVIRONMENTAL COMMUNICATION

In December 1995, the Eco Audit Ordinance effective throughout the EU was transferred to German law. This legislative act specifically defined the scope within which individual facilities of a company can voluntarily submit to an environmental audit and publish the result in the form of an environmental statement. In the Daimler-Benz group, environmental audits, like quality audits, are largely performed by in-house specialists; the environmental statement intended for the public and the environmental program are validated by external experts. We have already trained more than 50 experts from various locations and corporate units to qualify them for professionally performing internal audits. By the end of 1996 a total of 13 plants within the Daimler-Benz group had submitted to the eco audit, and other plants are about to undergo the process.

Daimler-Benz has been publishing a comprehensive environmental report each year since 1994. Because of our openness in communicating about environmental issues in the report, the response it has generated has been unusually positive, and this was also confirmed by the results of a questionnaire we included in the 1996 report.

INCREASED PRODUCT RESPONSIBILITY

The new Recycling and Waste Law increases the responsibility of companies for the residual materials they generate in the production, disposal, and recycling of their products. The ordinances on taking back electronics scrap and used cars are especially prominent issues. Daimler-Benz had already taken various measures several years ago in anticipation of these regulations.

As an example, Daimler-Benz Research developed a process for recycling electronics scrap that sets new standards both in terms of efficiency and environmental compatibility. Printed and bare board assemblies are stripped down to their component parts and recycled or disposed of separately.

We set other examples in recycling residual materials from the vehicle sector. Since 1991, Mercedes-Benz has been buying back retired Mercedes cars at market conditions as the first automotive manufacturer in Germany to initiate this kind of program. And since March 1993 we have also been taking back used parts from repair and service stations - including bumpers, batteries, electronic parts, and mixed plastics - through the Mercedes-Benz Recycling System free of charge and recycling them. In 1996 alone, we collected some 11,000 tons of residual materials, of which more than 7,000 tons could be recycled.

We have predefined the relevant specifications to ensure that our vehicles comply with the necessary degree of recyclability. Some 85% of the component parts of a passenger car can already be recovered at this point. In the new Actros nearly 80% of all raw materials, coolants, and lubricants can be easily recycled while another 15% are also capable of being recycled. As another important contribution to recycling, we used an increased proportion of recyclates in the E-Class and the Actros, for instance in the trunk and firewall paneling and for acoustic insulation.

We also made new progress in production processes in 1996. By employing minimum lubrication in processing aluminum integral components for aircraft, Daimler-Benz Research succeeded in drastically reducing the volume of the necessary but problematic cooling lubricants used in conventional processes. Compared to conventional processing, the volume of coolants consumed was reduced from

Hier gab es ein Produkt- oder Stimmungsbild ohne Text oder Zahlen.

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

Here was a product or mood picture without text or figures.

It was omitted in the pdffile to improve the usability of the file size.

approximately 3,000 liters per hour to 0.02 liters per hour. The new lubricant is environmentally compatible and is in fact even approved for the use in food processing. Because coolants can now be avoided almost entirely, the shavings generated in the process can be routed to metals recycling without any additional pretreatment.

EMISSIONS REDUCED YET AGAIN

We made important headway in the reduction of motor vehicle emissions in fiscal 1996. The new natural gas engine specially developed for the Sprinter and now also sold on the market achieves significantly improved combustion with extremely low emissions thanks to a new gas injection system. The new gas engine currently has the lowest pollutant emissions of any vehicle using fossil-fuel drive technology, and in terms of fuel consumption is comparable to diesel engines.

Daimler-Benz underscored its leading role in fuel-cell technology with the introduction of the second-generation NECAR II fuel-cell car. While NECAR I was still the size of a rolling laboratory, the fuel cell in NECAR II is small enough to fit into the trunk. The fuel-cell vehicle does not produce any emissions other than water. If this technology can be marketed in a mass-produced vehicle in the first decade of the next century, it will represent a substantial contribution to the improvement of our air quality as it is twice as efficient as combustion engines.

AWARD OF EXCELLENCE

As part of its social involvement, Daimler-Benz organizes the Daimler-Benz Award of Excellence youth project together with the Goethe Institute. Since 1991, about a quarter million students from high schools in the USA and Canada participate in an essay competition about Germany. The fifty best essays are rewarded with a study trip to Germany to explore German geography, history, culture, and music, but above all to learn the language and develop mutual understanding through contact with their peers. The Daimler-Benz Award of Excellence is thus a bridge across the Atlantic to promote understanding among young people.

AZUBI POWER

Trainees participating in the Daimler-Benz trainee project "Azubi Power" demonstrate just how much fantasy, initiative, and innovative drive young people have. In addition to their professional training, the trainees, who in Germany are called by the acronym Azubis, spend nine months working on a project exploring a topic they select from the fields economics, ecology, technology, and social policy. The result and the proposed solutions are then presented at a grand finale event to invited guests from the Company, politics, and the media. The project takes place in a different region each year. After Munich in 1995, the ongoing 1996/97 project is under way in Saxony/Saxony-Anhalt.

STRUCTURAL SUPPORT IN MANNHEIM

After more than five years of successful work, Daimler-Benz continued its structural support campaign in Mannheim in 1996. The tangible assistance provided above all to unemployed youth from the Rhine/Neckar region in cooperation with municipal, regional, and employment administrations and private sponsors has become known as the Mannheim Model. Daimler-Benz plays a leading role in this effort. The experiences gathered in projects such as the bicycle workshop are now being transferred to other cities like Berlin. Although this type of model support cannot solve structural problems in general, it does provide sensible incentives for the re-employment of the unemployed.

EUROPEAN YOUTH CONGRESSES

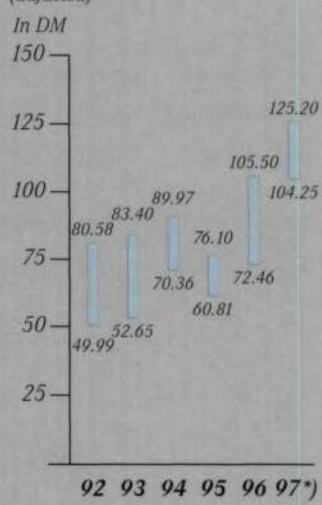
In connection with the Mannheim Model, several European youth congresses are organized each year on Reunification Day, most recently in Berlin. Topics include xenophobia, youth unemployment, and political disenchantment. The organizer is the Child and Youth Foundation, in which Daimler-Benz is a member. Tangible support projects for unemployed youth were developed at the congresses in Hoyerswerda and Rostock.

In the course of 1996 and in the first few months of 1997, the increase in value of the Daimler-Benz share clearly outperformed the German Stock Index (DAX), which proves that it is a worthwhile investment for our shareholders. We are securing the financial independence of the Company with our broadly diversified activities in the corporate treasury and in refinancing while at the same time taking advantage of the potentials of the international financial markets with innovative financial instruments.

THE INTERNATIONAL STOCK MARKETS

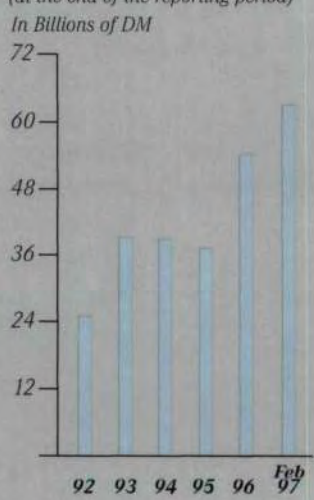
The development of the international stock markets was for the most part encouraging in 1996. This was primarily because of low interest rates and the high liquidity of investors. The American Dow Jones Index and the FTSE 100 in Great Britain recorded 26% and 12% growth respectively, reaching new all-time highs. The German stock market was also in very good shape in the year under review. Above all in the second half of 1996, higher profit forecasts - not least as a consequence of the noticeable devaluation of the German mark as compared to other important currencies - and the continued decline of interest rates in the bond market stimulated the price performance of German companies. The German Stock Index (DAX) reached 2,889 points by year-end, which was 28% higher than at the end of 1995. The positive trend continued in the first few months of 1997.

Daimler-Benz Share
High and Low Share Price
(adjusted)



*) until 02/28/97

Market Capitalization of the
Daimler-Benz Share
(at the end of the reporting period)



THE DAIMLER-BENZ SHARE

The Daimler-Benz share outperformed the German Stock Index in 1996. In the last three months of the year in particular, the officially quoted price of our share climbed at an above-average rate and reached DM 105.50 by year-end. Our shareholders thus recorded a 46% capital appreciation. The Daimler-Benz share continued to climb until end of February 1997, gaining another 16.1% since the end of 1996. On February 11, 1997, the all-time high of December 5, 1986 was surpassed when our share's value reached DM 122.75 (comparably calculated in consideration of the capital increases since implemented).

Daimler-Benz shares were also among the volume leaders on the German stock exchanges in 1996. With 2.1 billion shares and a market value of DM 176 billion, our stock was in the second place in terms of trade volume, which represents 8% of the volume of all German shares. Aside from being listed on the German stock exchanges and in the electronic trading system IBIS, options for our shares are traded on the German Futures Exchange DTB. In fiscal 1996 some 1.2 million contracts were concluded for Daimler-Benz shares. Daimler-Benz was thus among the three highest-volume shares on the DTB.

The trading volume of our share on the foreign exchanges increased by 58% to 257 million units. The increase in volume was especially pronounced in London.

CAPITAL STOCK

The capital stock of Daimler-Benz AG increased by DM 8.5 million to DM 2,577 million in 1996. Of this amount, DM 5.3 million pertained to the issuance of employee shares. The remaining increase in capital stock resulted from the exercise of stock options that had been issued to members of the Board of Management and Supervisory Board in the summer of 1996. With an officially quoted value of DM 63 billion (as of the end of February 1997) and more than 450,000 shareholders, Daimler-Benz is among the largest public

Statistics per DM 5 Share/ADS[1] in DM

	1996	1995
Net Income (loss)	**5.35**	(11.17)
Dividend	**1.10**	–
Dividend incl. tax credit	**1.57**	–
Stockholders' equity	**48.26**	50.96
Cash provided by operating activities	**19.72**	10.63

1) American Depositary Share. The value of an ADS is equivalent to the par value of a Daimler-Benz share.

A 10,000 DM Investment in Daimler-Benz Shares

Investment date	Jan. 1985	Jan. 1991	Jan. 1994
Investment duration (years appr.)	12	6	3
Portfolio value at 2/28/97 (in DM)	30,916	26,183	15,058
Average annual return in %			
from an investment in DEM	9.7%	16.9%	13.8%
from an investment in USD	15.5%	14.4%	14.6%
from an investment in JPY	8.8%	12.5%	17.3%
from an investment in GBP	12.2%	17.7%	11.1%
Interest rate of the DAX	12.0%	15.1%	12.1%

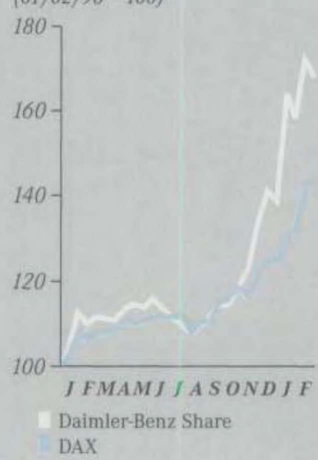
corporations on the German stock exchange. Nearly two-thirds of our capital stock is widely held. Deutsche Bank is currently holding a share of about 23%. Kuwait is the second-largest shareholder at just under 13%.

CONVERSION TO THE DM 5 SHARE

Effective July 1, 1996, the par value of the Daimler-Benz share was converted from DM 50 to DM 5, thus making our share even more attractive to private investors. The threshold for participating in variable trading was raised from 50 to 100 shares, but in consideration of the lower price as a result of the change in par value, private investors now have access to this form of trading with significantly lower investments as well. In New York, where our share is traded in the form of American Depository Shares (ADS), the value of each interim certificate is now the equivalent of one common share having a nominal value of DM 5. The same applies to our Singapore Depository Shares (SDS) listed on the Singapore exchange.

Daimler-Benz Share Price Index in Comparison with the German Stock Index (DAX)

(01/02/96 = 100)



THE DEVELOPMENT OF A DAIMLER-BENZ STOCK PORTFOLIO

The yield of a share is largely dependent on the share's price when it is purchased and sold. Because of the high degree of fluctuation characterizing the price of the Daimler-Benz share in the past few years, its performance can vary greatly for German shareholders. For foreign investors, the additional effects of changing currency parities also apply, which means the return can differ significantly from the yield in German marks.

Shareholder who invested in Daimler-Benz shares for approximately six years yielded a 16.9% return in German marks per annum; the return on a twelve-year investment was 9.7%. These calculations are based on the assumption that the proceeds from subscription rights and dividends (without a tax credit) were consistently reinvested in Daimler-Benz shares.

INVESTOR RELATIONS

In connection with the value-oriented corporate policy of Daimler-Benz, we intensified our contact with the financial markets in 1996. Aside from the regularly published annual reports and interim reports in which we address all of our existing and potential shareholders, personal contact is a high priority in relations with institutional investors and financial analysts. As a result of the active interest in our Company, the number of such contacts has increased considerably. Moreover, the corporate presentations given in our most important stock markets in Germany and abroad have helped reinforce investor confidence in our Company.

At our Annual General Meeting on May 22, 1996, we recorded a record attendance of 10,000 shareholders and guests. Nearly 70% of the capital stock was represented, which is as high as in previous years.

BROADLY DIVERSIFIED REFINANCING

The refinancing needs of the Daimler-Benz group are primarily defined by the financial services sector and its dynamic growth. In principle, we refinance this need in the relevant local currency. To optimize costs we take advantage of a highly diversified blend of market segments, currencies, and financial instruments. Moreover, we made use of asset backed securities in 1996 as well.

FINANCING INSTRUMENTS

As a rule, short-term borrowing is accomplished by taking up credit lines with banks. To optimize costs, we have also established local commercial paper programs in some markets. For instance, our North American holding company has a U.S. dollar commercial paper program, which was increased from USD 4.5 billion to USD 6.0 billion in August 1996.

We predominantly cover the capital needs of the companies within the group that exceed short-term requirements with capital market financing. To this end, we resort to both Euro Bonds and our Euro Medium-Term Note Program (EMTN). In addition, we offered a U.S. MTN program totaling more than USD 1 billion for subscription in September 1996, which allows us to access the largest capital market in the world. In particular, it also gives us an opportunity to negotiate loans having a very long maturity. Within the scope of this program, Daimler-Benz North America Corp. issued a ten-year Yankee Bond worth more than USD 500 million. Finally, in June 1996 we issued a warrant bond for the first time in the Daimler-Benz group. With the issuance of a total amount of DM 1.2 billion, we were able to take advantage of the favorable capital market conditions and at the same time secure an entirely new investor base for the Company.

INTEREST AND CURRENCY MANAGEMENT

The allocation of the assets available within the group to money market and capital market investments forms the foundation of our interest management policy. The short-term funds available in the money market serve to maintain the Company's liquidity at all times. Available funds are consolidated on a daily basis by way of cash concentration for the purpose of uniform liquidity management. In Germany, this is accomplished through the corporate treasury, and abroad through the financial and regional holding companies allocated to it.

We invest the majority of our liquidity in fixed-interest bearing securities and stocks by resorting the instruments of modern portfolio management. To minimize risks we adhere to a limit determined by the Board of Management using the value-at-risk method.

Within the scope of our currency management program, we account for foreign exchange risks in the operational sector and align the relevant hedging strategies in accordance with continuously monitored exchange rate forecasts. Hedging is becoming increasingly important to us in light of our growing business volume in newly industrializing countries. Derivative instruments are used exclusively to hedge against market risks within the scope of interest and currency management.

In order to ensure efficient control, the individual trading sectors are kept separate from the administrative functions of management, financial bookkeeping, and financial controlling; this separation extends to organizational and physical aspects as well as to systems management.

CREDIT RATING

Daimler-Benz AG has been rated by the international agencies Moody's Investor Services and Standard & Poor's for both short-term and long-term bonds. The ratings supplied by the two agencies for long-term debt, A1 and A+ respectively, and Prime-1 and A-1 for short-term paper, are on a high level within an international context. The Prime-1 short-term rating assigned by Moody's is in fact among the best of the categories available. Because Daimler-Benz AG generally guarantees the bonds issued by companies within the group, they also profit from the high ratings.

With our listing on the New York Stock Exchange (NYSE) in October 1993, Daimler-Benz was the first German company to establish direct access to the world's largest and most important capital market. In so doing, we initiated a process that not only permanently affects our external reporting, but also our accounting and our internal controlling instruments. The objective of this process is to increase the transparency and efficiency of our external and internal reporting while at the same time improving the methodological basis for a corporate management attuned to the returns expected by our investors without neglecting the entitled interests of our employees, customers, and society on the whole.

UNDERSTANDING VALUE-BASED MANAGEMENT

The permanent and continuous expansion of our company's value is only possible when the interests of all groups that contribute to our success are given the appropriate degree of consideration. Our economic performance and satisfactory returns for our shareholders depend on motivated employees, satisfied customers, and reliable and innovative suppliers. On the other hand, only a profitable company is in a position to obtain the funds required for securing the future from the capital market at relatively favorable terms and to offer its employees secure and challenging jobs and thus earn their long-term commitment. Management at Daimler-Benz is therefore dedicated to increasing the value of the Company for the benefit of everyone involved.

The new controlling instruments in the Daimler-Benz group to support this objective include preparing the balance sheet in accordance with American accounting principles (generally accepted accounting principles or U.S. GAAP) and reporting that is both internally and externally informative, topical, and transparent.

1996 FINANCIAL STATEMENTS PREPARED ENTIRELY IN ACCORDANCE WITH U.S. GAAP FOR THE FIRST TIME

Since our listing on the New York Stock Exchange we have increasingly aligned our external reporting in accordance with the information requirements of the international financial world. Important stages in the process included reconciling the result and equity capital according to German accounting principles (HGB) to conform with net income and stockholders' equity as defined by U.S. GAAP and providing additional information on the individual corporate segments. For the period between January and June 1996, we then presented the interim report prepared in accordance with U.S. GAAP for the first time. With our 1996 annual report, we are the first German company to present an entire year's financial statements in accordance with U.S. GAAP while at the same time complying with the provisions of the German Law to Facilitate Equity Borrowing. The report thus also conforms with EU guidelines and European accounting principles.

IMPROVED EXTERNAL DISCLOSURE

Instead of providing various figures concerning the economic performance of the Company that are derived using the HGB and U.S. GAAP but that in some instances differ significantly from each other because of the distinct accounting philosophies, we supply a complete set of figures in conformance with U.S. GAAP for our shareholders, the financial analysts, and the interested public. In so doing, we fulfill accounting standards of the highest reputation worldwide, and we believe our approach more clearly and accurately reflects the economic performance, financial situation, and net worth of the Company than any other accounting system available at this time. This is not least due to the fact that U.S. accounting principles focus on investor information rather than creditor protection, which is the dominant concern under German accounting principles. Discretionary valuation is greatly limited, and the allocation of income and expenses to the individual accounting periods is based on strict economic considerations.

ADVANTAGES FOR ALL SHAREHOLDERS

Using U.S. accounting principles makes it significantly easier for internationally active financial analysts or experienced institutional investors to accurately asses the financial situation and development of the Company. Moreover, it improves disclosure at Daimler-Benz as well as comparability on an international scale. This also helps promote the worldwide acceptance of our stock.

OPERATING PROFIT AS A CENTRAL VALUE

The operating profit will be the primary focus of our performance analysis in the future. It is a key figure for measuring the operating performance of the Company and its individual units. Based on the profit and loss statement prepared under U.S. GAAP, the operating profit is essentially made up of revenues and other income minus the cost of sales and other expenditures. The difference is adjusted to accommodate a few positions. Other important figures included in our external reporting are the net earnings per share and the liquidity statistics provided in the cash flow statement on page 55 of this report.

INTERNAL CONTROLLING ON THE BASIS OF BALANCE SHEET VALUES IN ACCORDANCE WITH U.S. GAAP

The U.S. GAAP not only made Daimler-Benz more transparent from an external perspective. Because the earnings figures as derived with American accounting principles accurately reflect the economic performance of the Company, we are now able to use figures from our external reporting for the internal controlling of the Company and its individual business units rather than relying on the internal operating profit used in the past. We thus make use of the same figures both internally and externally to measure the economic performance of the Company and the business units.

MINIMUM RETURN: 12%

In order to do justice to the interest requirements of the capital market, we have established a minimum return for all business units. The criterion that defines this minimum return, and at once the essential control figure for our operational business, is the operating profit, which we relate to the capital used for the operational output of goods and services. The capital employed for operational purposes is defined as the capital employed by the industrial activities on the basis of book values under U.S. GAAP minus trade accounts payable. For the financial services business, however, which is a bank-like activity, we use stockholders' equity rather than capital employed as the reference figure for the operating profit. This approach is in accordance with standard practice. The pre-tax interest rate of 12% that we expect from each of our business units on a medium-term basis is determined in accordance with the interest requirements of the stockholders' equity and external funds tied to the capital employed. For stockholders' equity, we assume an interest requirement of 14%, which is in agreement with market standard returns on risk-free investments and a risk premium derived from the capital market. The average interest rate for external funds is 8%. In this instance, we assume that the ratio of stockholders' equity to external funds is 2:1.

INSTRUMENTS FOR VALUE-ORIENTED CORPORATE MANAGEMENT

The activities that exceed the minimum interest requirement of 12% increase the value of the Company because their income exceeds the costs for the capital employed. Conversely, activities that fail to achieve the 12% minimum over the long term decrease the value of Daimler-Benz. The standard for measuring an activity is thus not the return generated in a single period; what is decisive is whether in the course of the entire product life cycle the return on the capital employed is adequate from a corporate and market perspective. This applies in particular to startup businesses, which cannot generate satisfactory earnings until the product begins to mature.

A return is adequate from a market perspective when it at least covers the costs of the capital employed, which is our minimum return of 12%. Moreover, we are committed to achieving the value that good competitors realize with comparable activities. We therefore regularly carry out benchmarks and best-practice comparisons to establish the strategic target returns for our business units. As a result, the medium- and long-term requirements for many business units are noticeably higher than the 12% minimum return requirement.

The operating profit in accordance with U.S. GAAP thus forms the instrumental basis for value-oriented corporate management. In addition, we assess the longer-term earning power of a given activity on the basis of the expected cash flow and the resulting earnings value for the reporting period.

Significantly higher earnings in the operational business and substantially lower non-recurring expenditures as compared to the previous year have led consolidated net income under U.S. GAAP to increase from DM-5.7 billion to DM 2.8 billion in 1996, and instead of the DM 7.2 billion loss in 1995, we achieved a DM2.4 billion operating profit. The favorable earnings trend picked up speed in the second half of the year. Due to the profitable results, we were not only able to strengthen stockholders' equity; the ratio between most balance sheet items is consistently improving, as are the financial indicators.

ADVANCES IN THE OPERATIONAL BUSINESS AND FEWER SPECIAL EXPENDITURES

Consolidated net income under U.S. GAAP reached DM 2.8 billion in fiscal 1996, and thus was positive again after the DM 5.7 billion loss of the previous year. The growth in operating profit was within the same order of magnitude, totaling DM 2.4 billion after the DM 7.2 billion loss in 1995. This pleasing development of earnings was related to the improved results in the operational business; contributing factors included the market success of new products and the programs to boost efficiency in all business units, as well as the more favorable exchange rate situation. In the 1995 financial statements, we had to carry considerable non-recurring expenditures in connection with the restructuring of various activities. The volume of these expenditures was significantly lower in the year under review.

It should be taken into consideration in this respect that in accordance with U.S. GAAP, unlike under German commercial law, such non-recurring expenditures are not treated as an extraordinary loss and had thus impacted the 1995 (U.S. GAAP) operating profit.

The streamlining of our portfolio at AEG alone and our withdrawal from Fokker resulted - under U.S. GAAP - in expenditures of DM 3.8 billion in 1995. Other expenses were connected to the special depreciation taken in the U.S. financial statements and the amortization of goodwill totaling DM 2.9 billion of which DM 2.6 billion were attributed to Dasa. There were also structural expenditures of DM 1.4 billion, most of which had to do with the competition initiative at Dasa. Non-recurrent expenditures in 1995 had thus totaled DM 8.1 billion.

But special factors impacted the operating profit in 1996 as well; they reached some DM 1.1 billion. For the most part, these expenses were generated in conjunction with the liquidation of the remaining activities at AEG and additional structural measures that were necessary in Aerospace, Microelectronics, and Rail Systems.

IMPROVED STRUCTURE OF THE STATEMENT OF INCOME

Consolidated revenues reached DM 106.3 billion in 1996, surpassing the 1995 total of DM 103.0 billion by 3.3%. After adjusting the previous year's figure for changes in the consolidated group, the increase was 10%.

Consolidated Statements of Income

DM in millions	1996	1995
Revenues and other income	***107,741***	104,727
Cost of sales	***(84,742)***	(86,686)
Selling, general, administrative and other expenses	***(15,955)***	(20,834)
Research and development	***(5,579)***	(5,369)
Income (loss) before financial income, taxes and minority interest	***1,465***	(8,162)
Financial income, net	***496***	929
Income taxes	***712***	1,620
Minority interest	***89***	(116)
Net income (loss)	***2,762***	(5,729)

Reconciliation to Operating Profit

DM in millions	1996	1995
Income (loss) before financial income, taxes and minority interest	***1,465***	(8,162)
Interest on advance payments received for long-term contracts	***303***	205
Earnings from Airbus Industrie	***267***	331
Corporate research of Daimler-Benz AG	***407***	397
Items not allocable to segments	***(19)***	32
Operating profit (loss)	***2,423***	(7,197)

The growth in revenues was primarily achieved with the substantial expansion of business volume in the Automotive business by some DM 5.5 billion. But in Services we also managed to boost revenues by DM 1.4 billion. Revenues in Aerospace, on the other hand, were DM 2 billion lower. After making adjustments for changes in the consolidated group, above all with respect to Fokker and Dornier Luftfahrt, revenues in this division actually increased by 13%. The revenues of the Directly Managed Businesses totaled DM 8.0 billion; the previous year's figure, DM 10.2 billion, represents the revenues from the former corporate unit AEG DBI and is thus not comparable.

Including other income, which predominantly relates to the disposal of assets and currency translation gains from open payments and deliveries, revenues and other income increased by DM 3.0 billion to DM 107.7 billion.

In contrast, the cost of sales decreased by DM 1.9 billion to DM 84.7 billion, and selling expenses, general administrative costs, and other expenses fell by DM 4.9 billion to DM 16.0 billion. In relation to revenues, the two largest cost elements thus dropped from a total of 104% in 1995 to 95%. Key factors were the improved utilization of production capacities as a result of the revitalization of business and our withdrawal from loss-making business units. The substantially lower non-recurring expenditures, which had been included in these positions in the income statement in 1995, also had an effect.

The funds spent on our own research and development projects increased by DM 0.2 billion to DM 5.6 billion; their share in revenues remained unchanged at 5%.

Operating Profit

DM in millions	1996	1995
Automotive	*2,707*	2,142
Aerospace	*(196)*	(7,220)
Services	*288*	112
Directly Managed Businesses [1]	*(585)*	(2,216)
Eliminations/Others	*209*	(15)
Daimler-Benz Group	*2,423*	(7,197)

1) 1995 AEG DBI

OPERATING PROFIT SUBSTANTIALLY HIGHER

Based on the gross profit before the financial results and income taxes, which is reported at DM 1.5 billion in the statement of income as compared to the DM 8.2 billion loss in 1995, the operating profit for the Daimler-Benz group was DM 2.4 billion in 1996 (1995: DM 7.2 billion loss).

Our Automotive business contributed DM 2.7 billion, once again the highest share in the group's operating profit (1995: DM 2.1 billion). The growth in sales in the passenger car and vans sectors and the currency development were decisive factors for the renewed increase in earnings; in certain segments of the Commercial Vehicle Division, on the other hand, we experienced a noticeable decline in revenues. The units involved were for the most part Trucks Europe, Trucks Nafta, and Commercial Vehicles Latin America.

While the contribution of Aerospace was still negative at DM -0.2 billion, it did improve markedly from the previous year's total of DM -7.2 billion. In this case, the reduction of non-recurring and structural expenditures was a key element. Moreover, as a result of the measures already implemented within the context of our programs to boost productivity, most of the units generated profits on an operational level as well.

Services expanded their contribution to DM 0.3 billion (1995: DM 0.1 billion). The Financial Services/Insurance Brokerage unit remained the primary source of income here, but IT Services and Telecommunications and Media Services also generated significantly higher earnings.

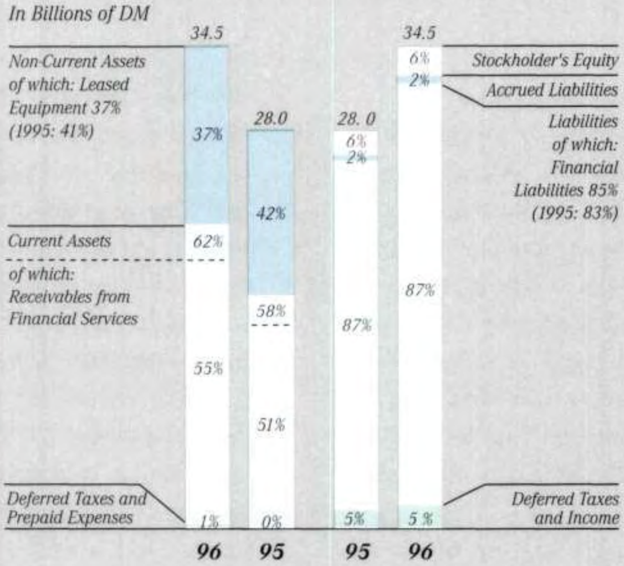
The Directly Managed Businesses in total charged a loss of DM 0.6 billion to the group's operating profit. Profits in the Diesel Engines and Sorting and Recognition Systems units were offset by losses in the Microelectronics unit and in rail systems due to the amortization of goodwill allocated to this sector. Other expenses were also related to the companies included in this segment in which we are liquidating the remaining activities of AEG AG following its merger with Daimler-Benz AG. Because the previous year's figure of DM -2.2 billion represents the result of the former AEG group, these values cannot be compared.

NET INCOME POSITIVE AGAIN

The financial result fell by DM 0.4 billion to DM 0.5 billion in 1996. This was predominantly due to expenditures from the valuation of financial instruments following the revaluation of the U.S. dollar and other currencies.

Consolidated net income reached a total of DM 2.8 billion, recovering from the high DM 5.7 billion loss in the previous year. The net income was noticeably affected by deferred taxes, which have to be included in accordance with U.S. law. This meant that although tax payments actually totaled DM 0.9 billion, additional tax revenue in the amount of DM 0.7 billion had to be included in the statement of income due to various effects that were for the most part non-recurring.

Balance-Sheet Structure of the Financial Services Business
In Billions of DM



CONSOLIDATED BALANCE SHEET STRONGLY INFLUENCED BY THE FINANCIAL SERVICES BUSINESS

The balance sheet of the Daimler-Benz group is still influenced to a large degree by the above-average expansion in the financial services business, which we primarily utilize as a flexible instrument in connection with our worldwide sales strategy. But our business with products not manufactured by the Daimler-Benz group is also gaining increasing importance; in this respect the standards we apply to measure risks and profitability are just as stringent as for our business with corporate products.

In an effort to make the special influence of the financial services business on the structure of the consolidated balance sheet more intelligible, we are including a separate consolidated statement of income, balance sheet and cash flow statement for our financial services activities with this annual report for the first time. In the interest of comparability with other financial services companies in the market we have essentially presented the financial services activities of Daimler-Benz as if they were operated by an independent company (stand-alone approach). For instance, the vehicles included under leased equipment are not reported at the group's manufacturing costs, but at market value.

Nevertheless, there are close relations between the financial services business and the other units within the group, which have a corresponding effect on the statements of income and balance sheets. For instance, our financial services companies are not only financed by borrowing from third parties, but also with funds from the Daimler-Benz group (intercompany loans). From the perspective of the financial services business, the latter represent financial liabilities; these amounts are eliminated upon consolidation with the balance sheet of Daimler-Benz because from the perspective of the group they are not liabilities vis-à-vis third parties. Similarly, the interest on these loans reduce the operating profit of the financial services sector while from the perspective of the Daimler-Benz group the interest charges are offset against the interest income arising to the organizational units granting the relevant intercompany loans to the financial services companies.

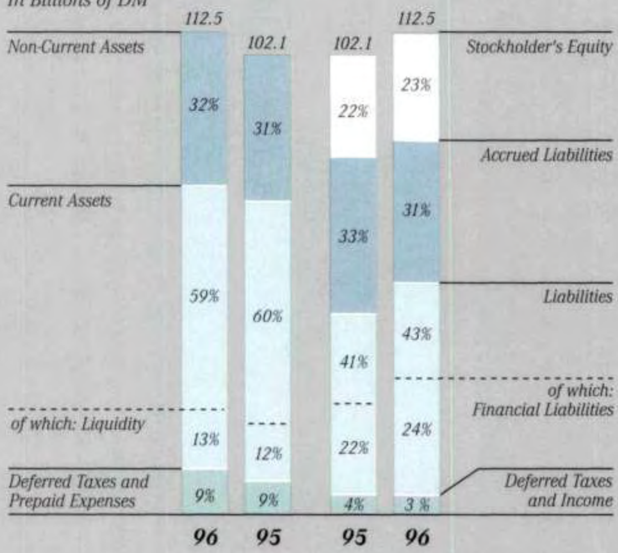
The operating profit shown in the separate statement of income for the financial services business (cf. p. 52) is DM 264 million. In this instance it should be taken into consideration that although this figure predominantly comprises the financial services business of debis, it also pertains to such activities of other divisions within the Daimler-Benz group. In addition, the operating profit does not contain any allocation to the administrative costs of Daimler-

Benz and debis. Accordingly, its comparability with the segment contribution of Services (debis) shown on page 47 is limited at best.

The dynamic increase in operating profit from DM 145 million to DM 264 million is largely related to the growth of new business for our companies in Germany, but certain European companies outside of Germany also improved their earnings significantly.

On the whole, the balance sheet total for the financial services business at December 31,1996, was DM 34.5 billion. This represents a DM 6.5 billion increase as compared to year-end 1995. Among the more important changes on the assets side, leased equipment jumped by DM 1.3 billion to DM 12.7 billion and financial services accounts receivables by DM 4.8 billion to DM 19.1 billion. This additional expansion of business was financed with the financial liabilities, which increased by DM 5.9 billion to DM 29.2 billion and thus made up nearly 85% of the balance sheet total. The proportion of stockholders' equity used for the financial services business is relatively low in comparison to our industrial business, and at year-end 1996 totaled DM 2.1 billion, or 6% of the balance sheet total.

Balance-Sheet Structure
In Billions of DM



STRUCTURES OF THE CONSOLIDATED BALANCE SHEET IMPROVED

The balance sheet total of the Daimler-Benz group as at December 31, 1996, increased by DM 10.4 billion over year-end 1995 to DM 112.5 billion. On the assets side, the growth in the balance sheet total is mainly influenced by the change in the leased equipment and leasing and sales financing accounts receivables positions, which rose by DM 2.2 billion and DM 4.8 billion respectively. On the liabilities side, the financial liabilities position alone was up nearly DM 4.9 billion, above all in conjunction with refinancing for the financial services business.

Again on the assets side, fixed assets totaled DM 35.7 billion, or 12% higher than in 1995. Without the leased equipment included in this figure, fixed assets grew 8% to DM 23.7 billion. While the property, plant, and equipment position in the balance sheet, at DM 18.2 billion, was DM 1.6 billion higher than in the previous year, financial assets decreased by DM 1.3 billion to DM 3.5 billion. This is especially due to the fact that the Adtranz joint venture reported at equity in 1995 was now included in the consolidated financial statements along with its prorated assets and liabilities.

The gross inventories in the balance sheet were up from DM 17.9 billion to DM 18.6 billion. As a result of the growth in advance payments received from DM 3.6 billion to DM 5.0 billion, net inventories dropped from DM 14.3 billion to DM 13.6 billion; their share in the balance sheet total is now 12% (1995:14%). Inventories mainly in the Automotive business were lower. Accounts receivable trade and other receivables fell slightly by DM 0.2 billion to a total DM 19.8 billion. Securities, on the other hand, jumped from DM 9.0 billion to DM 9.8 billion and cash from DM 3.2 billion to DM 4.6 billion. Liquidity which is mainly shown in these positions increased by DM 2.5 billion to DM 14.8 billion. Prepaid expenses and deferred taxes, at DM 10.0 billion, were DM 0.4 billion higher than in the previous year.

On the liabilities side, stockholders' equity rose by DM 3.5 billion to DM 26.4 billion; its share in the balance sheet total grew from 22% to 23% after the loss in the previous year had led to a noticeable decline. In this respect, the allocation of retained earnings from the group's net income was especially influential, but the more favorable exchange rates in translating stockholders' equity from the foreign companies to German marks was also an important factor. The proportion of fixed assets covered by stockholders' equity improved from 72% to 74%.

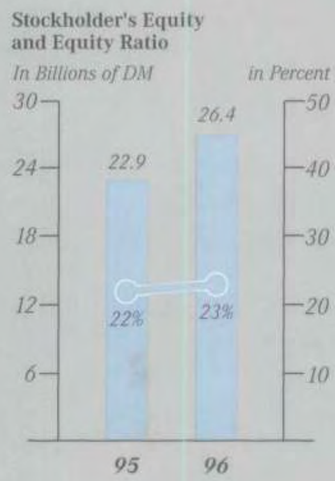
The increase in provisions reported in the balance sheet was below average, rising by DM 1.2 billion to a total of DM 34.9 billion. Pension provisions grew by DM 0.7 billion to DM 16.2 billion, and other provisions by DM 0.6 billion to DM 18.7 billion. The proportion of provisions in the balance sheet total thus dropped from 33% to 31%.

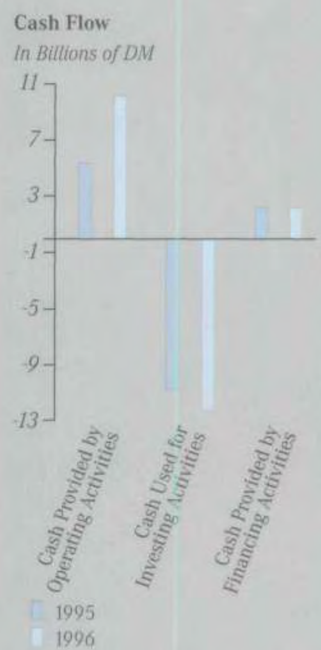
In contrast, financial liabilities again surged upward at an above-average rate; at DM 27.2 billion their share in total capital is now 24% as compared to 22% in the 1995 financial statements. DM 20.6 billion, or nearly three quarters of the financial liabilities, are tied to the financial services business alone.

As previously, both the fixed assets (without taking the influence of the financial services business into account) and the net inventories are adequately covered by stockholders' equity and long- and medium-term provisions.

INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities increased by DM 4.7 billion to DM 10.2 billion. This was predominantly related to the development of working capital after making adjustments for changes in the consolidated group and currency effects as well as the improved financial results (before expenses and income not affecting payments). In the previous year, more working capital had been tied up due to the expansion of inventories at Mercedes-Benz in particular. The cash flow from investment activities totaling DM 12.2 billion (1995: DM 10.7 billion) was still influenced by the growing leasing and sales financing business. At DM 6.1 billion (1995: DM 5.2 billion), nearly half of the gross investments were allocated to additions to leased assets; an additional factor was the net increase of sales financing receivables to DM 3.1 billion (1995: DM 2.1 billion). The development of the affiliated companies had the opposite effect. In this respect, proceeds from the sale of affiliated companies totaling DM 1.1 billion were offset by significantly lower expenditures for the acquisition of affiliated companies totaling DM 0.5 billion (1995: DM 2.2 billion). The cash flow from financial activities, at DM 2.2 billion (1995: DM 2.3 billion), remained nearly unchanged and was largely influenced by the growth in net borrowed funds to DM 1.9 billion. Overall, the development of the individual cash flows led to a DM 0.4 billion increase in cash and cash equivalents up to 3 months and a DM 2.5 billion increase in liquidity.





Statement of the Board of Management

The Board of Management of Daimler-Benz AG is responsible for preparing the consolidated financial statements contained in this annual report. They were prepared in accordance with the accounting principles of the United States of America (U.S. GAAP) for the first time. The other financial information contained in this report was determined on the basis of these financial statements and the evaluations undertaken in accordance with the U.S. accounting principles.

We have installed effective internal controlling and monitoring systems to guarantee compliance with the accounting principles and the adequacy of the reporting. They include the use of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel, and ongoing reviews by our internal auditing department. This ensures the accurate presentation of the group's international activities and puts the Board of Management in a position to identify risks as early as possible and introduce appropriate countermeasures.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the consolidated financial statements in accordance with generally accepted auditing standards in Germany and the United States and has issued the following auditors' report.

Together with the independent auditors, the Supervisory Board's Financial Audit Committee examined the consolidated financial statements including the business review and the auditors' report in depth. The entire Supervisory Board subsequently reviewed the documentation related to the financial statements.

Jürgen E. Schrempp

Dr. Manfred Gentz

Independent Auditors' Report

The Board of Directors and Stockholders
Daimler-Benz Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Daimler-Benz Aktiengesellschaft and subsidiaries ("Daimler-Benz") as of December 31, 1996 and 1995, and the related consolidated statements of income, cash flows, and changes in stockholders' equity for the years then ended. These consolidated financial statements are the responsibility of Daimler-Benz management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Germany and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Daimler-Benz has accounted for certain joint ventures in accordance with the proportionate method of consolidation as is permitted under the Seventh Directive of the European Community and the standards of the International Accounting Standards Committee. In our opinion, United States generally accepted accounting principles require that such joint ventures be accounted for using the equity method of accounting. The United States Securities and Exchange Commission has stated that it would not object to Daimler-Benz' use of the proportionate method of consolidation as supplemented by the disclosures in Note 2.

In our opinion, except for the effects of the use of the proportionate method of accounting, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daimler-Benz as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

Frankfurt am Main, April 3, 1997
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zielke
Wirtschaftsprüfer

Schmid
Wirtschaftsprüfer

CONSOLIDATED STATEMENTS OF INCOME

		Consolidated		Financial Services	
		Year ended December 31 *1996*	Year ended December 31 1995	Year ended December 31 *1996*	Year ended December 31 1995
	Note	*DM in mill.*	DM in mill.	*DM in mill.*	DM in mill.
Revenues	24	*106,339*	102,985	*8,379*	7,661
Other income		*1,402*	1,742	*113*	89
TOTAL REVENUES		*107,741*	104,727	*8,492*	7,750
Cost of sales and other expenses					
Cost of sales	4	*(84,742)*	(86,686)	*(7,752)*	(7,239)
Selling, general and administrative expenses	4	*(15,955)*	(20,834)	*(476)*	(366)
Research and development		*(5,579)*	(5,369)	–	–
TOTAL COSTS AND EXPENSES		*(106,276)*	(112,889)	*(8,228)*	(7,605)
INCOME (LOSS) BEFORE FINANCIAL INCOME, TAXES AND MINORITY INTEREST		*1,465*	(8,162)	*264* [1]	145 [1]
Financial income, net	5	*496*	929	.	8
Income taxes	6	*712*	1.620	*(127)*	(82)
Minority interest		*89*	(116)	*(4)*	2
NET INCOME (LOSS)		*2,762*	(5,729)	*133*	73
NET INCOME (LOSS) PER SHARE		*5.35*	(11.17)		

1) Equal to the Operating Profit of the Group's Financial Services.

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

Consolidated Balance Sheets

		Consolidated		Financial Services	
Assets	Notes	*December 31, 1996 DM in mill.*	December 31, 1995 DM in mill.	*December 31, 1996 DM in mill.*	December 31, 1995 DM in mill.
Intangible assets		*1,951*	630	*80*	45
Property, plant and equipment, net	7	*18,225*	16,576	*57*	54
Equipment on operating leases, net	8	*11,941*	9,700	*12,748*	11,408
Investments and long-term financial assets	13	*3,536*	4,813	*60*	81
Fixed assets		*35,653*	31,719	*12,945*	11,588
Inventories	9	*13,602*	14,329	*645*	525
Trade receivables	10	*10,864*	10,581	*382*	379
Receivables from financial services	11	*19,052*	14,278	*19,073*	14,278
Other receivables	12	*8,959*	9,413	*826*	592
Securities	13	*9,783*	9,025	*92*	83
Cash and cash equivalents	14	*4,557*	3,151	*269*	430
Current assets		*6,817*	60,777	*21,287*	16,287
Deferred taxes	6	*9,603*	9,314	*162*	26
Prepaid expenses		*388*	288	*65*	63
Total assets		*112,461*	102,098	*34,459*	27,964
Liabilities and stockholders' equity					
Capital stock		*2,577*	2,568		
Additional paid-in capital		*5,080*	4,948		
Retained earnings		*19,033*	16,271		
Other equity		*(297)*	(927)		
Stockholders' equity	16	*26,393*	22,860	*2,094*	1,669
Minority interest		*936*	1,324	*52*	69
Accrued liabilities	17	*34,886*	33,681	*523*	428
Financial liabilities	18	*27,182*	22,285	*29,171*	23,292
Trade liabilities	19	*9,027*	7,378	*132*	133
Other liabilities	20	*10,460*	10,409	*800*	895
Liabilities		*46,669*	40,072	*30,103*	24,320
Deferred taxes	6	*2,253*	3,460	*1,244*	1,132
Deferred income		*1,324*	701	*443*	346
Total liabilities and stockholders' equity		*112,461*	102,098	*34,459*	27,964

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

Consolidated Statements of Changes in Stockholders' Equity

- in millions of DM -	Capital Stock	Additional paid-in capital	Retained Earnings	Other equity: Cumulative translation adjustment	Other equity: Available-for-sale securities	Total
Balance at January 1, 1996	***2,568***	***4,948***	***16,271***	***(1,039)***	***112***	***22,860***
Net income	–	–	2,762	–	–	2,762
Issuance of capital stock	9	132	–	–	–	141
Currency translation	–	–	–	523	–	523
Unrealized gain on securities available for sale	–	–	–	–	107	107
Balance at December 31, 1996	***2,577***	***5,080***	***19,033***	***(516)***	***219***	***26,393***

- in millions of DM -	Capital Stock	Additional paid-in capital	Retained Earnings	Other equity: Cumulative translation adjustment	Other equity: Available-for-sale securities	Total
Balance at January 1, 1995	***2,565***	***4,904***	***22,564***	***(590)***	***(8)***	***29,435***
Dividends paid	–	–	(564)	–	–	(564)
Net loss	–	–	(5,729)	–	–	(5,729)
Issuance of capital stock	3	44	–	–	–	47
Currency translation	–	–	–	(449)	–	(449)
Unrealized gain on securities available for sale	–	–	–	–	120	120
Balance at December 31, 1995	***2,568***	***4,948***	***16,271***	***(1,039)***	***112***	***22,860***

The accompanying notes are an integral part of these financial statements..

	Daimler-Benz-Group 1996 DM in mill.	Financial Services 1996 DM in mill.	Daimler-Benz-Group 1995 DM in mill.
Net income (loss)	2,762	133	(5,729)
Income/(loss) applicable to minority interest	(89)	4	116
Adjustments to reconcile net income to net cash provided by operating activities	(217)	–	–
Depreciation and amortization of fixed assets	4,908	45	8,661
Depreciation and amortization of equipment on operating leases	2,018	2,198	2,444
Change in deferred taxes	(1,572)	(24)	(2,566)
Change in financial instruments	392	3	(77)
Gain (loss) on disposal of fixed assets and securities	(315)	.	28
Change in trading securities	(335)	–	44
Change in accrued liabilities	876	39	3,417
Change in current assets and liabilities			
- Inventories, net	(13)	(96)	(1.505)
- Trade receivables	35	7	(262)
- Trade payables	967	(59)	728
- Other assets and liabilities	786	(279)	156
Cash provided by operating activities	10,203	1,971	5,455
Purchase of fixed assets:			
- Purchase of property, plant and equipment	(6,212)	(24)	(4,850)
- Purchase of other fixed assets	(421)	(26)	(544)
Increase in equipment on operating leases	(6,101)	(6,171)	(5,205)
Proceeds from disposal of fixed assets	976	11	1,086
Proceeds from disposal of equipment on operating leases	2,537	3,339	2,369
Payment for acquisition of businesses	(462)	(162)	(2,162)
Proceeds from disposal of businesses	1,107	215	15
Acquisitions of securities (other than trading)	(1,319)	(9)	(928)
Liquidations of securities (other than trading)	1,126	.	337
Additions to receivables from financial services	(10,697)	(10,718)	(7,880)
Repayments of receivables from financial services	7,572	7.572	5,778
Change in other cash	(260)	9	1,242
Cash used for investing activities	(12,154)	(5,964)	(10,742)
Change in commercial paper borrowings and short-term financial liabilities	4,915	2,221	2,932
Additions to long-term financial liabilities	2,678	4,322	1,521
Repayment of financial liabilities	(5,675)	(2,838)	(1,687)
Profit transferred from subsidaries	–	(138)	–
Dividends paid	(10)	(224)	(580)
Proceeds from capital increases	294	486	97
Cash provided by financing activities	2,202	3,829	2,283
Effect of foreign exchange rate changes on cash and cash equivalents up to 3 months	101	4	(143)
Net increases (decreases) in cash and cash equivalents up to 3 months	352	(160)	(3.147)
Cash and cash equivalents (up to 3 months) at beginning of period	2,868	422	6,015
Cash and cash equivalents (up to 3 months) at end of period	3,220	262	2,868

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

Consolidated Fixed Assets Schedule

DM in millions	Balance at January 1, *1996*	Currency Change	Additions[1]	Reclassi-fication	Disposals	Balance at December 31, *1996*
	Acquisition or Manufacturing Costs					
Other intangible assets	*721*	13	235	6	76	*899*
Goodwill	*1,016*	25	1,378	–	91	*2,328*
Intangible assets	*1,737*	38	1,613	6	167	*3,227*
Land, leasehold improvements and buildings including buildings on land owned by others	*20,804*	103	1,627	274	1,848	*20,960*
Technical equipment and machinery	*24,827*	69	2,047	491	1,899	*25,535*
Other equipment, factory and office equipment	*15,907*	64	1,523	418	2,287	*15,625*
Advance payments relating to plant and equipment and construction in progress	*2,445*	45	1,939	(1,189)	129	*3,111*
Property, plant and equipment	*63,983*	281	7,136	(6)	6,163	*65,231*
Investments in affiliated companies	*723*	9	304	25	163	*898*
Loans to associated and affiliated companies	*15*	3	8	41	44	*23*
Investments in associated companies	*2,490*	1	26	263	1,461[4]	*1,319*
Investments in related companies	*1,029*	12	197	(26)	175	*1,037*
Loans to associated and related companies	*95*	.	74	29	18	*180*
Long-term securities	*1,043*	2	53	(338)	8	*752*
Other loans	*759*	13	142	6	190	*730*
Investments and long-term financial assets	*6,154*	40	804	–	2,059	*4,939*
	71,874	359	9,553	–	8,389	*73,397*
Leased equipment[3]	*14,111*	823	6,246	–	5,979	*15,201*

1) Including opening balance from companies acquired.
2) Currency changes with period and rates.
3) Excluding initial direct costs. See note 8.
4) Represents principally investment in Adtranz which is accounted for in 1996 using the proportionate method of consolidation. See note 3.

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

Depreciation						Book Values	
Balance at January 1, *1996*[1]	Currency Change	Current Year	Reclassi-fications	Disposals	Balance at December 31, *1996*	Balance at December 31, *1996*[2]	Balance at December 31, 1995[2]
460	6	160	.	66	*560*	*339*	261
647	13	142	–	86	*716*	*1,612*	369
1,107	19	302	.	152	*1,276*	*1,951*	630
12,627	51	1,082	16	1,369	*12,407*	*8,553*	8,177
21,177	38	1,923	(7)	1,540	*21,591*	*3,944*	3,650
13,588	51	1,398	1	2,038	*13,000*	*2,625*	2,319
15	.	7	(10)	4	*8*	*3,103*	2,430
47,407	140	4,410	.	4,951	*47,006*	*18,225*	16,576
206	5	31	14	70	*186*	*712*	517
1	–	.	1	.	*2*	*21*	14
586	–	37	.	21	*602*	*717*	1,904
418	.	37	(14)	46	*395*	*642*	611
4	–	72	(1)	1	*74*	*106*	91
8	–	4	–	1	*11*	*741*	1,035
118	.	15	.	.	*133*	*597*	641
1,341	5	196	–	139	*1,403*	*3,536*	4,813
49,855	164	4,908	–	5,242	*49,685*	*23,712*	22,019
4,519	283	2,018	–	3,442	*3,378*	*11,823*	9,592

BASIS OF PRESENTATION

I. SUMMARY OF ACCOUNTING POLICIES

General - The consolidated financial statements of Daimler-Benz Aktiengesellschaft and subsidiaries ("Daimler-Benz" or the "Group") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), except that the Group has accounted for certain joint ventures in accordance with the proportionate method of accounting (See note 2). All amounts herein are shown in millions of Deutsche Marks ("DM" or "marks").

Commercial practices with respect to certain of the products manufactured by Daimler-Benz necessitate that sales financing, including leasing alternatives, be made available to the Group's customers. Accordingly, the Group's consolidated financial statements are significantly influenced by activities of a number of "captive" financing entities. To enhance the readers' understanding of the Group's consolidated financial statements, the accompanying financial statements present, in addition to the consolidated financial statements, information with respect to the financial position, results of operations and cash flows of the Group's financial services business activities. Such information however is not required by U.S. GAAP and is not intended to, and does not, represent the separate U.S. GAAP financial position, results of operations or cash flows of the Group's financial services business activities. Amounts with respect to the financial services business are presented prior to intercompany eliminations of transactions with other Group companies.

Consolidation - All material companies in which Daimler-Benz has legal or effective control are consolidated. Significant investments in which Daimler-Benz has an ownership interest in the range of 20% to 50% ("associated companies") are generally included using the equity method of accounting. For certain investments in joint ventures, Daimler-Benz uses the proportionate method of accounting (see note 2). Other investments are accounted for at cost. The effects of intercompany transactions have been eliminated.

Foreign Currencies - Based upon Statement of Financial Accounting Standard "SFAS 52", the assets and liabilities of foreign subsidiaries are generally translated into DM on the basis of period end exchange rates while the income Statements are translated using average exchange rates during the period. The assets and liabilities of foreign subsidiaries operating in highly inflationary economies are remeasured into DM on the basis of period end rates for monetary assets and liabilities and at historical rates for non-monetary items, with resulting translation gains and losses being recognized in income. Further, in such economies, depreciation and gains and losses from the disposal of non-monetary assets is determined using historical rates.

Revenue Recognition - Revenue is recognized when title passes or services are rendered net of discounts, customer bonuses and rebates granted. Revenue on long-term contracts is generally recognized under the percentage-of-completion method based upon contractual milestones or performance. Revenue from finance receivables is recorded on the interest method. Operating lease income is recorded when earned.

Product Related Expenses - Expenditures for advertising and sales promotion and for other sales related expenses are charged to expense as incurred. Provisions for estimated costs related to product warranty are made at the time the products are sold. Research and development costs are expensed as incurred.

Net Income Per Share - Net income per share has been calculated by dividing the net income by the weighted average number of Ordinary Shares and common stock equivalents outstanding (See note 16). Net income is determined after deducting the minority interests' share of earnings of subsidaries.

Intangible Assets — Purchased intangible assets are valued at acquisition cost and are amortized over their respective useful lives (3 to 10 years). Goodwill derived from acquisitions is capitalized and amortized over 5 to 20 years. The Group periodically assesses the recoverability of its goodwill based upon projected future cash flows.

Property, Plant and Equipment - Property, plant and equipment is valued at acquisition or manufacturing cost and subsequently depreciated using an accelerated depreciation method until such time that the straight-line method yields a larger expense, when the straight-line method is utilized, over the assets' useful lives as follows: buildings - 17 to 50 years; site improvements - 8 to 20 years; technical facilities and machinery - 3 to 20 years; and facilities, factory and office equipment - 2 to 10 years.

Leasing - The Group is a lessee of property, plant and equipment and lessor of equipment, principally passenger cars and commercial vehicles. All leases that meet certain specified criteria under U.S. GAAP intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases. All other leases are accounted for as operating leases. Equipment on operating lease, where the Group is lessor, is valued at acquisition cost and generally depreciated over the assets' useful lives, generally three to seven years, using the straight line method.

Current Assets - Current assets represent the Group's inventories, receivables, securities and cash, including amounts due in excess of one year.

Marketable Securities and Investments - Securities are accounted for at fair values, if readily determinable. Unrealized gains and losses on trading securities, that is, securities bought principally for the purposes of selling them in the near term, are included in income. Unrealized gains and losses on available-for-sale securities are included in stockholders' equity, net of applicable income taxes. Securities which could be held until maturity are included in available-for-sale as the Group does not have the positive intent to hold them to maturity. All other securities are recorded at cost. Unrealized losses on all marketable securities and investments that are other than temporary are recognized in earnings.

Inventories - Inventory is valued at the lower of acquisition or manufacturing cost or market, cost being generally determined on the basis of an average or first-in, first-out method. Certain of the Group's U.S. businesses' inventories are valued using the last-in, first-out method. Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

Financial Instruments - It is Daimler-Benz' policy not to engage in trading activities. Financial instruments, including derivatives, which are not designated as hedges of specific assets, liabilities or firm commitments are marked to market and any resulting unrealized gains or losses are recognized in income. Gains and losses on financial instruments used to manage interest rate and currency risks of identifiable assets, liabilities or firm commitments are deferred and recognized along with the effects of the related transaction.

Accrued liabilities - The valuation of pension liabilities is based upon the projected unit credit method required by SFAS 87. An accrued liability for taxes and other expenses is recorded, when an obligation with third parties has been incurred, its utilization is probable and the amount can be reasonably estimated.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. ACQUISITION AND PRO RATA CONSOLIDATION

In late December 1995 the Group and Asea Brown Boveri Ltd. ("ABB") completed formation of a joint venture of their rail systems businesses to be known as Adtranz. In connection therewith, the Group contributed its rail systems businesses to Adtranz and paid U.S. $900 to ABB in return for a 50% interest in the joint venture.

As part of the formation of Adtranz, the Group and ABB also entered into an option agreement whereby, for certain periods during 1998 through 2005, the Group has the right (call option) to purchase ABB's 50% interest in Adtranz for U.S. $1,800 plus a premium calculated on the basis of Adtranz' meeting or exceeding certain future earnings thresholds. In addition, for certain periods during 1998 through 2005, ABB has the right (put option) to require the Group to purchase ABB's 50% interest in Adtranz at prices calculated in accordance with the same criteria except that the price for the put option is lower than the price for the call option assuming the same future earnings.

At December 31, 1995 the Group's investment in Adtranz was valued on the basis of the equity method of accounting and included DM 1,094 representing the excess of the payment, made by the Group to ABB, over the fair value of the the Group's share of the net assets of Adtranz. Since January 1, 1996 the Group accounts for its investment in Adtranz using the pro-rata method of consolidation. Accordingly, Daimler-Benz reports its 50% proportionate interest of the assets and liabilities, revenues and expenses and cash flows in Adtranz. The Group believes that such method of financial statement presentation, which is permitted by the regulations of the Seventh Directive of the European Community and the Standards of the International Accounting Standards Committee, better illustrates its consolidated financial position, results of operations and cash flows to the reader of the Group's consolidated financial statements.

Under U.S. GAAP, Daimler-Benz' investment in Adtranz is required to be accounted for using the equity method of accounting. The differences in accounting treatment between the pro-rata and equity methods would not effect reported stockholders' equity or net income of Daimler-Benz. Under the equity method of accounting, Daimler-Benz' net investment in Adtranz would be included within investments in the balance sheet and its share of the net income or loss of Adtranz together with the amortization of the excess of the cost of its investment over its share of the investment's net assets would be reported as a net amount in financial income, net in the Group's statement of income. Additionally, Adtranz would have an impact on the Group's reported cash flows only to the extent the Group received cash dividends. For purposes of its United States financial reporting obligation, Daimler-Benz has requested and received permission from the United States Securities and Exchange Commission ("SEC") to prepare its consolidated financial statements with this departure from U.S. GAAP.

Summarized consolidated financial information of Adtranz as of and for the year ended December 31, 1996 follows. The amounts represent those used in the Daimler-Benz consolidation, including goodwill resulting from the formation of Adtranz. Other companies included in the consolidation according to the pro-rata method are not material.

Balance sheet information

	At December 31, 1996
Fixed assets	*1,766*
Current assets	*1,429*
Assets	*3,195*
Stockholders' equity	*1,387*
Accrued liabilities	*886*
Liabilities	*922*
Stockholders' equity and liabilities	*3,195*

Statement of income information

	Year ended December 31, 1996
Revenues	*2,835*
Operating profit	*(16)*
Net income	*(95)*

(in millions of DM, exept share amounts)

CASH FLOW INFORMATION

	Year ended December 31, 1996
Cash flow from:	
– Operating activities	*(452)*
– Investing activities	*125*
– Financing activities	*81*
Effect of foreign exchange on cash	*7*
Change in cash (up to 3 months)	*(239)*
Cash (up to 3 months) at beginning of period	*524*
Cash (up to 3 months) at end of period	*285*

Cash includes DM 116 (1995: 101) held by Daimler-Benz AG in connection with cash concentration procedures.

3. BUSINESS REORGANIZATION MEASURES

During 1995 and extending into 1996 the Group implemented certain measures designed to increase the Group's competitiveness and earnings. Such measures consisted principally of:

(a) Beginning in 1995 and continuing in 1996 the Group spun off certain non-core businesses and other net assets of AEG Aktiengesellschaft ("AEG") into EHG Elektro Holding GmbH, closed the AEG corporate headquarters and merged AEG with Daimler-Benz AG. Thereafter the divestitures of the Energy Systems Technology and Automation Divisions were completed. In June, 1996 the shareholders of AEG approved the merger of AEG with Daimler-Benz AG and in September, 1996, effective January 1, 1996, such merger was formally registered in the trade register. As part of the merger, the Group purchased the outstanding minority interest of AEG. In connection with the foregoing transactions, the Group recorded charges to operations of approximately DM 300 and DM 1,600 in 1996 and 1995, respectively. See note 25 for information regarding the sale of the recognition and sorting systems business.

(b) In January 1996 Daimler-Benz announced that, effective immediately, it would discontinue financial support for NV Koninklijke Nederlandse Vliegtuigenfabriek ("Fokker"), the Dutch aircraft manufacturer. Subsequent to the announcement Fokker requested and received, in accordance with Dutch law, protection from its creditors. In connection therewith, control Of Fokker was placed with a third-party administrator. On March 15, 1996 Fokker formally filed for bankruptcy under the laws of The Netherlands. The Group recorded a charge in the 1995 statement of income of DM 2,158 for discontinuing such investment. During 1996 the Group realized gains of approximately DM 100 from the proceeds of sales of certain inventories in excess of the inventories' previously written-down value.

(c) Beginning in 1994 and accelerating in 1995, the DM appreciated significantly against the U.S. dollar, the currency in which a significant percentage of the Aerospace divisions revenues are denominated. An appreciation of the DM relative to the U.S. dollar results in the Group receiving, when converted to DM, less revenue (and cash proceeds) from the sales of its products. In addition, Aerospace continued to suffer significant operating losses as a result of continued low levels of demand in the aircraft market and shrinking government budgets in the space and defense sectors. As a result of the foregoing the Group instituted comprehensive cost-cutting and restructuring measures, including personnel reductions of approximately 4,000 employees in Germany and the sale of three German production facilities. The Group recorded a charge of DM 878 in the 1995 statement of income to cover the cost of such measures. In addition, Daimler-Benz also recorded a charge to DM 2,558 in 1995 to write-off goodwill relating to the acquisition of certain businesses included within Aerospace and to write-down certain long-term assets.

During 1996 the aerospace industry experienced a significant increase in demand. As a consequence, higher production requirements resulted, especially for Daimler-

(in millions of DM, exept share amounts)

Benz Aerospace Airbus GmbH, in a reduction of its provision for restructuring measures by approximately DM 300.

(d) During 1996 the Group contributed its Dornier aircraft business into a newly formed holding company 80% owned by Fairchild Industries Corporation, an American aircraft manufacturer. In connection therewith, the Group recorded charges of approximately DM 435, of which a portion included the businesses' loss from operations up to the date of contribution. The Group is accounting for its 20% investment in the holding company using the equity method of accounting.

Notes to the Consolidated Statements of Income

4. Other Income, Functional Costs and Other Expenses

Cost of sales includes materials expenses as follows:

	Year ended December 31, 1996	1995
Cost of raw materials, supplies and resale goods	***51,028***	48,440
Cost of purchased services	***9,844***	11,770
	60,872	60,210

Cost of sales and functional costs include other taxes of DM 280 and DM 241 in 1996 and 1995, respectively.

Selling, general and administrative and other expenses are comprised of:

	Year ended December 31, 1996	1995
Selling costs	***10,401***	10,507
General administration costs	***3,345***	3,494
Expenses from reorganization of the Group	***319***	3,755
Goodwill amortization and writedowns	***142***	1,999
Other expenses	***1,748***	1,079
	15,955	20,834

Expenses from reorganization of the Group relate exclusively to Fokker and the restructuring of the former AEG DBI. See Note 3.

Personnel expenses included in the statement of income are comprised of:

	Year ended December 31, 1996	1995
Wages and salaries	***22,064***	24,265
Social levies	***4,003***	4,493
Pensions cost (see note 17a)	***1,564***	1,613
Other expenses for pensions and retirements	***178***	201
	27,809	30,572

Number of employees (weighted annual average):

	Year ended December 31, 1996	1995
Hourly employees	***164,523***	173,510
Salaried employees	***115,041***	135,217
Trainees/apprentices	***11,704***	12,495
	291,268	321,222

At year end 34,655 people (1995: 12,365 people) were employed in joint venture companies.

The total remuneration paid by Group companies to the members of the Board of Management of Daimler-Benz AG amounted to DM 14 in 1996. The remuneration paid to the members of the Supervisory Board of Daimler-Benz AG totals DM 2 in 1996. Disbursements to former members of the Board of Management of Daimler-Benz AG and their survivors amounted to DM 16 in 1996. An amount of DM 105 at December 31, 1996 has been accrued in the financial statements of Daimler-Benz AG and Mercedes-Benz AG for pension obligations to former members of the Board of Management and their survivors. As of December 31, 1996, there existed no advances and loans to members of the Board of Management of Daimler-Benz AG.

(in millions of DM, exept share amounts)

5. Financial Income, net

	Year ended December 31, 1996	1995
Income from investments of which affiliated companies DM 39 (1995: DM 36)	*419*	518
Loss, net from disposals of investments and shares in affiliated companies	*(18)*	(4)
Write-down of investments and shares in affiliated companies	*(107)*	(121)
Results from companies included at equity	*(128)*	(665)
Results from investments, net	*166*	(272)
Other interest and similar income of which from affilated companies DM 24 (1995: DM 5)	*1,641*	1,729
Interest and similar expenses	*(872)*	(1,184)
Interest income, net	*769*	545

	Year ended December 31, 1996	1995
Income from securities and long-term receivables	*17*	65
Gains from sales of securities	*111*	246
Write-down of securities and long-term receivables	*(6)*	(130)
Currency (losses) gains of mark-to-market of financial instruments	*(307)*	299
Other financial (losses) gains, net	*(254)*	176
Other financial results, net:	*(439)*	656
	496	929

During 1996 and 1995 the Group capitalized interest expenses related to qualifying construction projects of DM 49 and DM 29, respectively.

6. INCOME TAXES

Income (loss) before income taxes and minority interest for the years ending December 31, 1996 and 1995, amounted to DM 1,961 and DM (7,233), respectively, of which DM 1,200 and DM (6,874), respectively, have been generated by the Group's operations in Germany.

The provisions for income taxes (credit) follow:

	Year ended December 31, 1996	1995
Current taxes:		
Germany	*404*	231
Foreign	*456*	715
Deferred taxes:		
Germany	*(1,448)*	(2,258)
Foreign	*(124)*	(308)
	(712)	(1,620)

German corporate tax law applies a split-rate imputation system with regard to the taxation of the income of a corporation and its stockholders. In general, retained corporate income is initially subject to a federal corporation tax of 45% plus a surcharge of 7.5% on the federal corporate tax payable. After giving effect to the surcharge, the federal corporate tax rate increases to 48.375%. Upon distribution of retained earnings to stockholders, the corporate income tax rate on the distributed earnings is adjusted to 30%, plus the surcharge of 7.5% on the federal corporate rate for a total of 32.25%, by receiving a refund for taxes previously paid on income in excess of 30%. Upon distribution of retained earnings in the form of a dividend, German stockholders are entitled to a tax credit in the amount of federal income taxes previously paid by the corporation.

A reconciliation of income taxes determined using the German federal corporate rate of 48.375% plus the after federal tax benefit rate for trade taxes of 8.625% for a combined statutory rate of 57% is as follows:

(in millions of DM, exept share amounts)

	Year ended December 31,	
	1996	1995
Expected provision (benefits) for income taxes	*1,118*	(4,123)
Credit for dividend distributions	*(167)*	(6)
Foreign tax rate differential	*(260)*	(218)
Non-deductible expenses	*84*	129
Tax free income	*(166)*	(227)
Changes in valuation allowances on deferred tax assets	*(1,043)*	1,381
Losses for which benefits were not recognizable	–	260
Depreciations of investments for which benefits were not previously recognized	*(207)*	–
Write-off of goodwill, not tax-deductible	*57*	1,143
Other	*(128)*	41
Actual benefit for income taxes	*(712)*	(1,620)

During 1996 the Group's consolidated valuation allowances decreased by DM 1,052. In 1996 the Group realized income tax benefits from the utilization of loss carryforwards of DM 673 relating to entities in the Aerospace division. The tax benefits of such loss carryforwards had been fully reserved as of December 31,1995 since the entities had a history of operating losses prior to 1996 and such losses were limited as to their use. Tax benefits recognized from other changes to the valuation allowances in 1996 included the merger of the former AEG into Daimler-Benz AG during 1996 after which the German loss carryforwards of AEG could be utilized by the Group's German group of companies that file a combined tax return ("Organschaft"). Prior to the merger such NOL's were limited as to their use and accordingly were fully reserved for.

In addition, during 1996 the Group realized tax benefits related to investments written-down in previous years. In 1995 the Group was unable to recognize the tax benefits of DM 260 resulting from losses incurred by Fokker for which financial support was discontinued.

The amount of the Group's deferred tax allowances established at December 31,1996 and 1995 were based upon management's belief that it was more likely than not that not all of the deferred tax assets would be realized. In future periods, depending upon Daimler-Benz' financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence, the valuation allowance may increase or decrease.

Deferred income tax assets and liabilities are summarized as follows:

	31. December	
	1996	1995
Intangible assets	*917*	669
Property, plant and equipment	*889*	764
Equipment on operating leases	*1,694*	1,361
Inventories	*1,473*	1,380
Net operating loss and credit carry forwards	*9,498*	9,815
Retirement plans	*2,019*	2,017
Other accrued liabilities	*1,178*	1,067
Liabilities	*962*	1,429
Other	*1,081*	1,292
	19,711	19,794
Valuation allowances	*(3,364)*	(4,416)
Deferred tax assets	*16,347*	15,378
Equipment on operating leases	*2,016*	2,052
Financial assets	*793*	1,057
Inventories	*640*	502
Other accrued liabilities	*3,090*	2,577
Receivables	*1,595*	2,520
Other	*863*	816
Deferred tax liabilities	*8,997*	9,524
Deferred tax asset, net	*7,350*	5,854

At December 31, 1996, the Group had net operating losses ("NOLs") and corporate tax credit carryforwards amounting to approximately DM 16,551 (1995: DM 17,591). The majority of the NOLs relate to the German group of companies which are included in the filing of a combined tax return ("Organschaft") and have an unlimited carryforward period under German tax law. The remainder of the NOL's relate to losses of non-Organschaft companies and are limited in their use to the company or group which generated the loss.

(in millions of DM, exept share amounts)

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

	At December 31, 1996		At December 31, 1995	
	Total	*thereof non-current*	Total	thereof non-current
Deferred tax assets	*9,603*	*7,913*	9,314	8,290
Deferred tax liabilities	*(2,253)*	*(1,519)*	(3,460)	(2,484)
	7,350	*6,394*	5,854	5,806

Deferred tax liabilities have not been recognized on unremitted earnings of non-German subsidiaries intended to be indefinitely reinvested (DM 2,527 and DM 2,709 at December 31, 1996 and 1995, respectively. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

NOTES TO THE CONSOLIDATED BALANCE SHEETS

7. PROPERTY, PLANT AND EQUIPMENT, NET

Information with respect to the Group's property, plant and equipment is presented in the Fixed Assets schedule included herein. Property, plant and equipment include buildings and technical equipment capitalized under capital lease agreements, of DM 498 and DM 683 at December 31, 1996 and 1995, respectively. Depreciation expense on assets under capital lease arrangements was DM 86 and DM 121 in 1996 and 1995, respectively.

8. EQUIPMENT ON OPERATING LEASES, NET

Information with respect to the Group's equipment on operating lease is presented in the Fixed Assets schedule included herein. Of the total equipment on operating lease DM 11,402 and DM 8,882 at December 31, 1996 and 1995, respectively, represent automobiles and commercial vehicles. The amount for equipment on operating leases in 1996 and 1995 include initial direct costs of contracts of DM 118 and DM 108, respectively.

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 1996 amounted to DM 6,573 and are due as follows:

1997	2,761
1998	2,202
1999	1,081
2000	391
2001	106
thereafter	32

9. Inventories

	At December 31,	
	1996	1995
Raw materials and manufacturing supplies	*2,960*	3,138
Work in process	*6,883*	6,107
thereof realting to long-term contracts and programs in process DM 1,485 (1995: DM 371)		
Finished goods, parts and goods purchased for resale	*7,989*	8,119
Advance payments to suppliers	*734*	531
	18,566	17,895
Less: Advance payments received thereof relating to long-term contracts and programs in process DM 582 (1995: DM 641)	*(4,964)*	(3,566)
	13,602	14,329

Certain of the Group's U.S. businesses' inventories are valued using the last-in, first-out method. If the FIFO method had been used instead of the UFO method, inventories would have been higher by DM 299 and DM 240 at December 31, 1996 and 1995, respectively.

Notes to Consolidated Financial Statements (in millions of DM, exept share amounts)

10. Trade Receivables

	At December 31, 1996		At December 31, 1995	
	Total	*due after one year*	Total	due after one year
Receivables from sales of goods and services	***11,971***	***368***	11,031	297
Long-term contracts and programs, unbilled, net of advance payments received	***305***	***156***	751	365
	12,276	***524***	11,782	662
Allowance for doubtful accounts	***(1,412)***	***(41)***	(1,201)	(58)
	10,864	***483***	10,581	604

11. Receivables from Financial Services

	At December 31,	
	1996	1995
Receivables from:		
Sales financing	***14,550***	11,436
Finance leases	***7,542***	4,603
	22,092	16,039
Initial direct costs	***98***	79
Unearned income	***(2,908)***	(1,784)
Unguaranteed residual value of leased assets	***105***	140
	19,387	14,474
Allowance for doubtful accounts	***(335)***	(196)
	19,052	14,278

Sales financing and finance lease receivables consist of retail installment sales contracts secured by automobiles and commercial vehicles. Contractual maturities applicable to receivables from sales financing and finance leases maturing in each of the five years following December 31, 1996 are as follows:

1997	9,221
1998	5,301
1999	4,117
2000	2,149
2001	962
thereafter	342
	22,092

As of December 31, 1996 and 1995 DM 11,098 and DM 8,142 of the total financing receivables mature after more than one year.

12. Other Receivables

	At December 31, 1996		At December 31, 1995	
	Total	*due after one year*	Total	due after one year
Receivables from affiliated companies	***1,787***	***210***	3,768	480
Receivables from related companies [1]	***908***	***133***	1,568	255
Other receivables and other assets	***8,296***	***1,774***	6,575	807
	10,991	***2,117***	11,911	1,542
Allowance for doubtful accounts	***(2,032)***	***(213)***	(2,498)	(181)
	8,959	***1,904***	9,413	1,361

1) Related companies include entities which have a significant ownership in Daimler-Benz or entities in which the Group holds a significant investment.

(in millions of DM, exept share amounts)

13. SECURITIES AND INVESTMENTS

Information with respect to the Group's investments and long-term financial assets is presented in the Fixed Assets schedule included herein. Securities included in current assets are comprised of the following:

	At December 31,	
	1996	1995
Debt securities	*1,827*	3,481
Equity securities	*773*	1,212
Equity based funds	*1,432*	417
Debt based funds	*5,751*	3,915
	9,783	9,025

Carrying amounts and fair values of debt and equity securities included in securities and investments for which fair values are readily determinable are classified as follows:

	At December 31, 1996				At December 31, 1995			
			unrealized				unrealized	
	Cost	*Fair value*	*Gain*	*Loss*	Cost	Fair value	Gain	Loss
Available-for-sale	*7,714*	*8,137*	*429*	*6*	6,210	6,437	227	–
Trading	*1,618*	*1,646*	*30*	*2*	2,501	2,588	87	–
Securities:	*9,332*	*9,783*	*459*	*8*	8,711	9,025	314	–
Investments and long-term financial assets available-for-sale	*667*	*741*	*80*	*6*	1,002	1,035	39	6
	9,999	*10,524*	*539*	*14*	9,713	10,060	359	6

Aggregate cost, fair values and gross unrealized holding gains or losses per security class are the following:

	At December 31, 1996				At December 31, 1995			
			unrealized				unrealized	
	Cost	*Fair value*	*Gain*	*Loss*	Cost	Fair value	Gain	Loss
Equity securities	*1,410*	*1,545*	*147*	*12*	967	1,059	98	6
Municipal securities	*93*	*94*	*1*	–	987	1,007	20	–
Debt securities issued by foreign governments	*48*	*48*	–	–	12	12	–	–
Corporate securities	*8*	*8*	–	–	489	492	3	–
Mortgage-backed securities	–	–	–	–	558	570	12	–
Equity based funds	*1,183*	*1,432*	*249*	–	393	417	24	–
Debt based funds	*5,639*	*5,751*	*112*	–	3,806	3,915	109	–
Available-for-sale	*8,381*	*8,878*	*509*	*12*	7,212	7,472	266	6
Trading	*1,618*	*1,646*	*30*	*2*	2,501	2,588	87	–
	9,999	*10,524*	*539*	*14*	9,713	10,060	353	6

(in millions of DM, exept share amounts)

The cost and estimated fair values of investments in debt securities at December 31,1996 and 1995, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	At December 31,	
	1996	1995
Available-for-sale		
due within one year	***47***	268
due after one year through five years	***103***	174
due after five years	–	1,639
	150	2,081

Proceeds from sales of available-for sale securities in 1996 and 1995 were DM 1,126 and DM 337, respectively. Gross realized gains in 1996 and 1995 from sales of available-for-sale securities on a specific identification basis were DM 22 and DM 6, respectively. Gross realized losses in 1996 and 1995 from sales of available-for-sale securities on a specific identification basis were DM 6 and DM 1, respectively.

14. CASH AND CASH EQUIVALENTS

As of December 31, 1996 and 1995 cash and cash equivalents include DM 1,337 and DM 283, respectively, of deposits with maturities of more than three months. Cash and cash equivalents include DM 174 and DM 658 at December 31, 1996 and 1995, respectively, of amounts on deposit with a related party.

15. ADDITIONAL CASH FLOW INFORMATION

Liquid assets recorded under various balance sheet captions as of December 31, 1996 and 1995 are as follows:

	At December 31,	
	1996	1995
Cash and cash equivalents available within 3 months	***3,220***	2,868
Deposits which mature after 3 months	***1,337***	283
Securities	***9,783***	9,025
Other	***505***	124
	14,845	12,300

The following information with respect to cash flows is provided:

	Year ended December 31,	
	1996	1995
Interest paid	***1,705***	1,055
Taxes paid	***553***	570

16. STOCKHOLDERS' EOUITY

At December 31, 1995 the Group had issued and outstanding 51,368,736 Ordinary Shares with a nominal (par) value of 50 DM per share. On May 22, 1996 the Group, upon the approval of its shareholders, reduced the nominal value of its Ordinary Shares from 50 DM per share to 5 DM per share effective July 1, 1996. This resulted in an increase in the number of Ordinary Shares outstanding from 51,368,736 shares to 513,687,360 shares. Per share information for all periods presented has been adjusted to reflect per share amounts based upon a 5 DM per share nominal value. Due to the issuance of shares to employees and the conversion of options into shares the number of issued and outstanding Ordinary Shares increased to 515,396,396 as of December 31, 1996.

(in millions of DM, exept share amounts)

Daimler-Benz stockholders on June 26, 1991, authorized through June 30, 1996 the issuance of Ordinary Shares of up to DM 600 nominal value of which the remaining unutilized portion of DM 367 expired in 1996. On May 22, 1996 the stockholders approved the issuance of Ordinary Shares up to an aggregate amount of DM 500 nominal value through April 30,2001.

At the annual general meeting held on May 18, 1994 Daimler-Benz was authorized by its stockholders to issue Ordinary Shares of DM 20 nominal value to employees of which DM 9 are unissued and expire on April 30, 1999. In 1996 and 1995, 1,050,000 and 700,000 Ordinary Shares, respectively, were issued to employees leading to increases of capital stock and additional paid-in capital of DM 6 and DM 3 and DM 80 and DM 44, respectively.

Subject to preemptive rights of existing stockholders, Daimler-Benz in the stockholders' meeting held on May 18, 1994 and May 22, 1996 has received the authority for future issuances of Ordinary Shares up to DM 300 in connection with convertible bonds and bonds with warrants. This authority, which limits the total nominal value of such convertible bonds and bonds with warrants to be issued to DM 2,000 and which expires on April 30, 1999, was used during 1996 for the issuance of convertible notes by Daimler-Benz Capital (Luxembourg) AG. Convertible notes in the amount of DM 750 were issued with a nominal value of 1,000 DM each, including a total of 7,690,500 options which, on the basis of the option agreement, entitle the bearer of the option to subscribe for Ordinary Shares of Daimler-Benz AG. The option price per share is DM 95.07 in consideration of exchange of the notes or DM 98.65 in cash. During 1996 options for the subscription of 36 shares have been exercised. Proceeds from issuance of the notes, net of expenses, were DM 711.

On May 22, 1996 the shareholders of Daimler-Benz approved establishment of The Stock Option Plan of the Daimler-Benz Group (the "Plan") which provides for the granting to certain members of management options for the purchase of Daimler-Benz Ordinary Shares. Daimler-Benz has reserved up to DM 40 of contingent authorized nominal capital for the issuance of new Ordinary Shares under the Plan. The options granted under the Plan are evidenced by non-transferable 5.9% convertible bonds due 2006 with a principal amount of 1,000 DM per bond (the "Convertible Bonds"). Each Convertible Bond entitles the holder thereof to convert the bond into Ordinary Shares with an aggregate nominal value of 1,000 DM (equating to 200 shares). For convertible bonds sold in 1996 the conversion price per share was DM 83.77 (the stock exchange price as of May 23, 1996), of which the remaining DM 78.77 must be paid in cash. Every year the conversion privilege under the bond can be exercised only within four periods of three weeks each, if the stock exchange price per Ordinary Share is at least 115 % of the predetermined conversion price. Activity during 1996 with respect to the Plan follows:

	Nominal value of convertible bonds	Options
Bonds sold during 1996	4.4	889,000
Repayment	(0.2)	(32,000)
Converted	(3.2)	(659,000)
Outstanding	1.0	198,000

As a consequence of the foregoing activity, capital stock increased by DM 3 and additional paid-in capital by DM 52. Daimler-Benz adopted the disclosure-only option under SFAS No. 123, Accounting for Stock-Based Compensation, as of January 1, 19°6. If the accounting provisions of the new Statement had been adopted, the effect on 1996 net income would have been immaterial.

The minority stockholders of Dornier have the right to exchange their interest in Dornier for holdings of equal value in Daimler-Benz Aerospace or Ordinary Shares of Daimler-Benz AG and such options are exercisable at any time. If such rights were exercised in full, the number of Ordinary Shares of Daimler-Benz AG which would be exchangeable for Dornier shareholdings would not be material to the Group or its stockholders.

Under German corporation act, the amount of dividends available for distribution to shareholders is based upon the earnings of Daimler-Benz AG (parent company only) as reported in its statutory financial statements determined in accordance with the German commercial code (Handelsgesetzbuch). At December 31, 1996 Daimler-Benz AG had retained earnings of DM 7,342. For the year ended December 31, 1996 Daimler-Benz management has proposed to distribute DM 567 of the 1996 earnings of Daimler-Benz AG as a dividend to the stockholders.

(in millions of DM, exept share amounts)

17. Accrued Liabilities

Accrued liabilities are comprised of the following:

	At December 31, 1996		At December 31, 1995	
	Total	***due after one year***	Total	due after one year
Accrued liabilities for:				
Retirement plans	***16,232***	***15,555***	15,581	15,123
Income and other taxes	***2,327***	***1,163***	1,704	1,061
Other accrued liabilities	***16,327***	***8,289***	16,396	8,469
	34,886	***25,007***	33,681	24,653

A) RETIREMENT PLANS

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

	At December 31,	
	1996	1995
Pension liabilities	***15,847***	15,246
Accrued postretirement medical benefits	***220***	188
Other plans	***165***	147
	16,232	15,581

The Group operates various defined benefit pension plans all based upon years of service. Some pension plans are based on salary earned in the last year of employment and some are fixed DM-amount plans depending on ranking (both wage level and position).

The funded status of the Group's major retirement plans is as follows:

	At December 31, 1996		At December 31, 1995	
	Plan assets exceed accumulated benefits	***Accumulated benefits exceed plan assets***	Plan assets exceed accumulated benefits	Accumulated benefits exceed plan assets
Actuarial present value of benefits				
nonvested	***317***	***18,530***	277	18,093
vested	***39***	***572***	28	598
Accumulated benefit obligation	***356***	***19,102***	305	18,691
Effect of projected future salary increases	***137***	***1,921***	118	2,134
Projected benefit obligations	***493***	***21,023***	423	20,825
Plan assets at fair value	***(758)***	***(5,398)***	(623)	(4,860)
Projected benefit obligations in excess of (less than) plan assets	***(265)***	***15,625***	(200)	15,965
Unrecognized net gains (losses)	***144***	***222***	107	(719)
Prior service cost not yet recognized	***16***	–	19	–
Pension liabilities (prepaid pension costs)	***(105)***	***15,847***	(74)	15,246

(in millions of DM, exept share amounts)

Plan assets consist primarily of investments in equity and fixed interest securities and real estate.

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated. The average factors used in the principal retirement plans were as follows:

	1996 *in %*	1995 in %
Discount rate	***6.75–8.0***	7.0–8.0
Long-term rate of increased remuneration	***3.5–5.0***	3.0–6.0
Expected long-term rate of return on assets	***7.0–8.0***	7.0–9.0

The net periodic pension cost for the major retirement plans comprised:

	1996	1995
Service cost: present value of benefits earned during the year	***546***	563
Interest cost on projected benefit obligation	***1,451***	1,441
Actual return on assets	***(443)***	(442)
Net amortization and deferral	***10***	51
Net periodic pension costs	***1,564***	1,613

Certain of the Group's U.S. operations provide postretirement medical benefits to their employees. The net periodic pension cost for the years ended December 31, 1996 and 1995 was DM 26 and DM 25, respectively.

B) Other accrued liabilities

Other accrued liabilities mainly relate to:

	At December 31, *1996*	1995
Accrued warranty costs and price risks	***5,284***	4,917
Accrued losses on uncompleted contracts	***1,931***	1,826
Restructuring	***1,825***	2,069
Other	***7,287***	7,584
	16,327	16,396

Accruals for restructuring comprise certain employee termination benefits and costs which are directly associated with plans to exit specified activities. The changes in these provisions are summarized as follows:

	Termination benefits	Exit costs	Total liabilities
Balance at January 1, 1995	2,189	344	2,533
Utilizations and transfers	(1,132)	(226)	(1,358)
Reductions	(272)	(12)	(284)
Additions	842	336	1,178
Balance at December 31, 1995	1,627	442	2,069
Utilizations and transfers	(556)	(50)	(606)
Reductions	(380)	(34)	(414)
Additions	423	353	776
Balance at December 31, 1996	1,114	711	1,825

(in millions of DM, exept share amounts)

In connection with the Group's workforce reduction program the Group recorded in 1996 and 1995 provisions for termination benefits of DM 423 and DM 842, respectively, principally within Mercedes-Benz, AEG-DBI and Daimler-Benz Aerospace. During 1996 and 1995 the Group effected workforce reductions of approximately 11,800 and 14,800 employees, respectively. In this connection with certain of such reductions DM 745 and DM 1,489 in 1996 and 1995, respectively, of termination benefits were paid of which DM 556 and 1,132 in 1996 and 1995, respectively, were charged against previously established liabilities. At December 31, 1996 the Group had liabilities for estimated future terminations of approximately 16,300 employees.

Exit costs in 1995 mainly result from plans to reduce the production capacity of AEG-DBI and Daimler-Benz Aerospace and in 1996 relate exclusively to businesses of the former AEG DBI.

18. Financial Liabilities

	Weighted average interest rate	Maturities	At December 31, *1996*	1995
Notes	6.3	1997	***486***	1,679
Commercial paper	5.2	1997	***7,841***	5,525
Liabilities to financial institutions	4.8	1997	***6,784***	6,319
Loans	5.9	1997	***186***	91
Short-term financial liabilities			***15,297***	13,614
Bonds	5.9	1998 to 2006	***6,830***	4,066
of which due in more than five years: DM 3,236 (1995: DM 1,216)				
Liabilities to financial institutions	5.5	1998 to 2006	***5,015***	4,524
of which due in more than five years: DM 2,523 (1995: DM 2,220)				
Loans	5.9	1998 to 2002	***40***	81
Long-term financial liabilities			***11,885***	8,671
			27,182	22,285

At December 31, 1996 and 1995, liabilities to financial institutions include approximately DM 721 and DM 609, respectively, owed to related parties. Commercial paper is denominated in DM and U.S. dollars and includes accrued interest. Bonds and liabilities to financial institutions are largely secured by mortgage conveyance, liens and assignment of receivables of approximately DM 2,381 and DM 2,516, as of December, 1996 and 1995.

Aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

1997	1998	1999	2000	2001	thereafter
15,297	1,845	1,063	1,871	1,345	5,761

At year end 1996 and 1995, the Group had unused non-cancellable short-term credit lines of DM 14,255 and DM 13,581, respectively, and unused non-cancellable long-term credit lines of DM 5,672 and DM 5,703, respectively.

(in millions of DM, exept share amounts)

19. Trade Liabilities

	At December 31, 1996			At December 31, 1995		
	Total	*due after one year*	*due after five years*	Total	due after one year	due after five years
Accounts payable	*8,890*	*508*	*67*	7,212	260	–
Accrued liabilities from long-term contracts and programs	*137*	*21*	*–*	166	93	–
	9,027	*529*	*67*	7,378	353	–

20. Other Liabilities

	At December 31, 1996			At December 31, 1995		
	Total	*due after one year*	*due after five years*	Total	due after one year	due after five years
Liabilities to affiliated companies	*1,787*	*383*	*218*	2,429	1,287	651
Liabilities to related companies	*1,192*	*25*	*24*	1,556	121	24
Other liabilities	*7,481*	*697*	*164*	6,424	651	–
	10,460	*1,105*	*406*	10,409	2,059	675

Liabilities to related companies are primarily obligations of Daimler-Benz Aerospace Airbus GmbH to Airbus Industrie G.I.E., Toulouse.

Other liabilities mainly relate to payroll obligations of the month of December and related tax liabilities. As of December 31, 1996 and 1995 tax liabilities include withheld employee taxes of DM 972 and DM 985, respectively, and social benefits due of DM 906 and DM 1,182, respectively.

OTHER NOTES

21. LITIGATION AND CLAIMS

Various legal actions, governmental investigations, proceedings and claims are pending or may be instituted or asserted in the future against the Group. Litigation is subject to many uncertainties; the outcome of individual litigated matters is not predictable with assurance; and it is reasonably possible that some of the matters could be decided unfavorably to the Group. Although the amount of liability at December 31, 1996 with respect to these matters cannot be ascertained, the Group believes that the resulting liability, if any, should not materially affect the consolidated financial position of the Group at December 31, 1996.

(in millions of DM, exept share amounts)

22. Commitments and Contingencies

Commitments and contingencies include the following:

	At December 31,	
	1996	1995
Guarantees	***3,932***	3,515
Notes payable	***257***	255
Contractual guarantees	***1,932***	616
Pledges of indebtedness of others	***487***	393
	6,608	4,779

Contingent liabilities represent principally guarantees of indebtedness of non-consolidated affiliated companies and third-parties and commitments by Group companies as to contractual performance by joint venture companies. Daimler-Benz Aerospace is also obligated to make certain guaranteed dividend payments to minority shareholders.

As part of the government supported Airbus Development Program, the Group is committed to incur future development costs. At December 31, 1996 the remaining commitment aggregated DM 136. In addition the Group has pledged the assets of Daimler-Benz Aerospace Airbus GmbH ('DA') acquired with development funds, to the Federal Republic of Germany.

Airbus Industries G.I.E. ("Airbus consortium") has given a performance guarantee to Agence Executive, the French government agency overseeing Airbus; such performance guarantee has been assumed by DA to the extent of its 37.9 % participation in the Airbus consortium.

At December 31, 1996, in connection with DA's participation in the Airbus consortium, the Group was contingently liable related to the consortium's irrevocable financing commitments in respect of aircraft on order, including options, for delivery through 2001 or later. In addition, the Group was also contingently liable related to credit guarantees and participation in financing receivables of Airbus consortium under customer finance programs. When entering into such customer financing commitments Airbus consortium has generally established a secured position in the aircraft being financed. Airbus consortium and the Group believe that the estimated fair value of the aircraft securing such commitments would substantially offset any potential losses from the commitments. As Airbus consortium has not, historically, experienced a problem accessing such collateral, the probability of Airbus consortium experiencing material losses from such customer financing commitments is considered remote.

The Group's obligations under the foregoing financing commitments of Airbus consortium are joint and several with its other partners in the consortium. In the event that Airbus, despite the underlying collateral, was unable to honour its obligations, the Group is confident that each of its other consortium partners would be responsible for their proportionate share of Airbus' obligations.

In connection with the Group's acquisition of Messerschmitt-Bölkow-Blohm GmbH ("MBB") in 1989 and the related indirect acquisition of all outstanding shares of DA and in order to facilitate the complete privatisation of MBB and, through DA, its activities as the German participant in Airbus Industrie, the Government of the Federal Republic of Germany agreed to:

(i) assume responsibility for the repayment of certain bank loans guaranteed by the Government in the past and, under certain conditions, further to assume responsibility for certain additional loans which DA has since repaid,

(ii) continue funding a substantial portion of certain already launched Daimler-Benz Aerospace Airbus development programs,

(iii) continue to provide certain exchange rate guarantees for 1991, 1990 and 1989, and

(iv) defer its immediate rights to any repayment of development grants and other advances made to Daimler-Benz Aerospace Airbus and its predecessor companies.

(in millions of DM, exept share amounts)

The development grants and other advances are repayable by DA, on a contingent basis, through DA making annual payments equal to 40% of the pretax profits as defined, if any, of DA for the preceding fiscal year, beginning for the fiscal year 2002 (subject to advance to the year 2000 under certain conditions). Each annual payment is contingent on DA having earned pretax profits in the preceding year. Such pretax profits are subject to reduction by application of any prior years' (beginning with the year 2002) cumulative loss carryforwards. DA may not pay dividends prior to the commencement date of the 40% profit sharing obligation; provided that if it were to do so it would be required to commence profit sharing payments at the same time. The payments of 40% of annual pretax profits will be made on the foregoing contingent basis until all development grants and other advances are repaid. Because the amount of these annual payments, if any, will depend upon the profitability of DA beginning with the year 2002 and because such profitability will be a function of numerous unpredictable factors, including the then prevailing dollar/mark exchange rate, the Group is unable to predict with certainty how long DA will remain subject to the contingent 40% profit sharing obligation. However, the Group currently believes it likely that the repayment term will extend over a period of decades from the year 2002. The Group may not sell or transfer a majority of the capital stock of DA without the consent of the German Federal Government.

In the normal course of business, the Group sells to third-parties certain of its financial services assets. During the years ended December 31, 1996 and 1995 the Group sold assets for proceeds of DM 1,774 and DM 817, respectively. In connection with such sales, at December 31, 1996 the Group remained liable under recourse provisions for DM 341.

The Group is jointly and severally liable for certain non-incorporated companies, partnerships and project groups.

The total rentals under operating leases, charged as an expense in the statement of income amounted to DM 885 and DM 878 in the years ended December 31, 1996 and 1995, respectively.

The future minimum lease payments under rental and lease agreements, that have initial or remaining terms in excess of one year at December 31, 1996 are as follows:

1997	911
1998	816
1999	568
2000	443
2001	343
thereafter	1,394

23. INFORMATION ABOUT FINANCIAL INSTRUMENTS

A) USE OF FINANCIAL INSTRUMENTS

In the course of normal business Daimler-Benz uses financial instruments, including securities, bonds, commercial paper, and, as a consequence, may be exposed to risks from changes in interest and currency exchange rates as well as share prices. Daimler-Benz uses derivative financial instruments as a means of hedging to reduce such risks. Without the use of these instruments the Group's exposure to market risks may be higher.

Based on regulations issued by regulatory authorities for financial institutions, the Group has established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to trading on one side and execution, accounting and controlling on the other.

Market risk to which the portfolio of financial instruments of Daimler-Benz AG and its German subsidaries may be exposed is quantified according to the "value-at-risk" method which is commonly used among banks. Using historical variability of market values, a potential loss resulting from changes of market prices is calculated on the basis of statistical methods. The maximum acceptable market risk has been fixed by management in the form of a risk capital which has been approved for one year. The adherence to the risk capital is regularly monitored. It is the Group's intention to extend the "value-at-risk" approach to all subsidaries with significant treasury activity.

B) NOTIONAL AMOUNTS AND CREDIT RISK

The contract or notional amounts shown below do not always represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of Daimler-Benz through its use of derivatives.

The notional amounts of off-balance sheet financial instruments are as follows:

	At December 31,	
	1996	1995
Currency contracts	***34,140***	27,942
Interest rate contracts	***27,205***	15,239

(in millions of DM, exept share amounts)

Currency contracts include foreign exchange forward and option contracts which are mainly utilized to hedge existing assets and liabilities, firm commitments and anticipated transactions denominated in foreign currencies (principally U.S. dollars, Japanese Yen and major Euro-currencies). The principal objective of the Group's hedging transactions is to reduce the exposure of its foreign denominated future cash flows to exchange rate fluctuations. The Group has entered into currency contracts to cover foreign exchange risks on certain anticipated foreign currency transactions relating to sales and purchase transactions expected to occur within a period of one to five years.

The Group enters into interest and interest rate cross-currency swaps, interest rate forward and futures contracts and interest rate options in order to reduce funding costs, to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities.

The Group may be exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Group's financial instruments represent, in general, international financial institutions. Daimler-Benz does not have a significant exposure to any individual customer or counterparty, based on the rating of the counterparties performed by established rating agencies. The Group believes the overall credit risk related to utilized derivatives is insignificant.

c) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. Fair values of financial instruments have been determined with reference to available market information and the valuation methodologies discussed below. However, considerable management judgement is required in interpreting market data to arrive at fair values. Accordingly, the fair values presented herein may not be indicative of the amounts that the Group could realize in a current market exchange.

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

	At December 31, 1996		At December 31, 1995	
	carrying amount	*fair value*	carrying amount	fair value
Balance Sheet Financial Instruments				
Assets				
Financial assets	*1,465*	*1,465*	1,781	1,781
Receivables from financial services	*19,052*	*18,909*	14,278	14,281
Securities	*9,783*	*9,783*	9,025	9,025
Cash and cash equivalents	*4,557*	*4,557*	3,151	3,151
Other	*505*	*505*	124	124
Liabilities				
Financial liabilities	*(27,182)*	*(27,351)*	(22,285)	(22,445)
Off-Balance Sheet Financial Instruments				
Assets				
Currency contracts	*630*	*1,227*	1,082	1,780
Interest rate contracts	*104*	*258*	46	392
Liabilities				
Currency contracts	*(539)*	*(639)*	(267)	(313)
Interest rate contracts	*(78)*	*(341)*	(83)	(284)

(in millions of DM, exept share amounts)

The carrying amounts of the on-balance sheet financial instruments in the table are included in the balance sheets under the indicated captions. The carrying amounts of the off-balance sheet financial instruments are included under other assets and accrued liabilities. The carrying values of cash, other receivables and accounts payable approximate fair values due to the short-term maturities of these instruments.

In determining the fair values of derivative financial instruments certain compensating effects from underlying transactions (e.g. firm commitments and anticipated transactions) are not taken into consideration. At December 31, 1996 and 1995 the Group had deferred net unrealized gains on forward currency exchange contracts and options of DM 462 and DM 646, respectively, purchased against firm foreign currency denominated sales commitments extending for varying periods between three and twenty-four months.

The methods and assumptions used to determine the fair values of financial instruments are summarized below:

Financial Assets and Securities - Fair value of securities in the long-term portfolio was estimated using quoted market prices. The Group has certain equity investments in related and affiliated companies not listed in the table. Since certain of these investments are not publicly traded, determination of fair values is impracticable. The fair value of securities in the short-term portfolio was estimated using quoted market prices.

Receivables from Financial Services - The carrying value of variable rate finance receivables was estimated to approximate fair value since they are priced at current market rates. The fair value of fixed rate finance receivables was estimated by discounting expected cash flows using the current rates at which loans of similar credit quality and maturity would be obtained made as of December 31, 1996 and 1995.

Financial Liabilities - Fair value of publicly traded debt was estimated using quoted market prices. The fair value of other long-term notes and bonds was estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities. The carrying values of commercial paper and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

Interest Rate Contracts - The fair values of existing interest rate and cross currency interest rate swap agreements were estimated by discounting expected cash flows using market interest rates over the remaining term of the instrument. Options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Currency Contracts - The fair value of forward foreign exchange contracts is based on quoted prices for contracts of similar terms. Options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Other Financial Guarantees - Because of the individual nature of these guarantees estimation of the fair value is not practicable.

24. SEGMENT REPORTING

Daimler-Benz operates in four divisions; a description of the products and services from which each segment derives its revenues follows:

- Automotive — design, manufacture, assembly and sale of passenger cars and commercial vehicles principally under the trade mark Mercedes-Benz as well as related parts and accessories.
- Aerospace - development, production and sale of commercial and military aircraft and helicopters, of satellites and related space transportation systems, defense related products, including radar and radio systems, and propulsion systems.
- Services - services related to information technology, financial services, insurance brokerage, trading, telecommunication and media and real estate management.
- Directly managed businesses (DMB) - In 1996 represents 50% interest in Adtranz and microelectronics and automation processing products and diesel engines. In 1995 represented the AEG-DBI corporate unit which included each of the foregoing business activities plus other businesses including products for the transmission and distribution of electricity.

Sales and revenues related to transactions between segments are generally recorded at values that approximate commercial selling prices.

Information with respect to the Group's industry segments follows:

	Automotive	Aerospace	Services	DMB[1]	Corporate	Eliminations	Consolidated
1996							
Revenues	74,958	12,979	10,798	7,604	–	–	106,339
Intersegment sales	2,666 [2]	74	2,345	411	–	(5,496)	–
Total revenues	77,624	13,053	13,143	8,015	–	(5,496)	106,339
Operating profit (loss)	2,707	(196) [3]	288	(585)	(57)	266	2,423
Identifiable assets	34,686	20,415	16,984	12,203	28,173	–	112,461
Depreciation and amortization	3,015	522	2,342	771	80	–	6,730
Capital expenditures	4,451	584	225	502	450	–	6,212
1995							
Revenues	69,585	14,261	9,426	9,713	–	–	102,985
Intersegment sales	2,515	832	2,288	438	–	(6,073)	–
Total revenues	72,100	15,093	11,714	10,151	–	(6,073)	102,985
Operating profit (loss)	2,142	(7,220) [4]	112	(2,216) [4]	(30)	15	(7,197)
Identifiable assets	33,800	22,504	13,400	8,917	23,477	–	102,098
Depreciation and amortization[5]	2,989	4,173	2,774	973	108	–	11,017
Capital expenditures	3,331	564	231	601	123	–	4,850

(1) In 1996 includes Adtranz accounted for using the proportionate method of accounting. See Note 2.

(2) Includes DM 2,443 of automobiles leased to customers under operating leases that have been sold to Group leasing and sales financing entities with guarantees as to the residual value of the products at the end of such leases.

(3) 1996 Aerospace operating loss includes charges of DM 435 related to the aircraft business of Dornier offset by approximately DM 300 of reductions in provisions for restructuring measures. See Note 3.

(4) In 1995 the Aerospace operating loss includes DM 5,594 of charges related to restructuring measures, goodwill and other write-offs and the decision to discontinue financial support for Fokker. In 1995 the DMB operating loss includes DM 1,596 of charges related to restructuring of AEG (see note 3) and write downs to fixid assets (DM 331).

(5) Includes Aerospace write-downs to fixed assets, including goodwill, of DM 2,558 and DMB DM 331.

(in millions of DM, exept share amounts)

A reconciliation of income before financial income and taxes to operating profit follows:

	1996	1995
Income (loss) before financial income, taxes and minority interest	***1,465***	(8,162)
Interest on advance payments received on long-term contracts	***303***	205
Earnings from Airbus Industrie	***267***	331
Corporate research of Daimler-Benz AG	***407***	397
Items not allocable to segments	***(19)***	32
Operating profit (loss)[1]	***2,423***	(7,197)

(1) 1996 operating profit includes charges of DM 435 related to the aircraft business of Dornier offset by approximately DM 300 of reductions in provisions for restructuring measures. 1995 operating loss includes DM 7,190 of charges related to restructuring measures, goodwill and other write-offs, the decision to discontinue financial support for Fokker and the restructuring of AEG. See note3.

Geographic information with respect to the Group's revenues, net income and identifiable assets follows:

	Germany	Other European Countries	North America	Latin America	Asia	Other Countries	Eliminations	Consolidated
1996								
Revenues (by destination)	39,165	30,360	20,472	3,922	8,309	4,111	–	106,339
Revenues (by operation):								
To unaffiliated customers	56,584	20,908	18,383	3,757	3,881	2,826	–	106,339
Transfers between geographic	25,054	1,813	221	83	222	–	(26,393)	–
Total revenues	80,638	22,721	18,604	3,840	4,103	2,826	(26,393)	106,339
Export sales from Germany	–	7,967	1,962	535	4,178	2,351	–	16,993
Net income (loss)	2,099	135	293	264	80	(109)	–	2,762
Identifiable assets	67,283	16,769	21,187	3,839	2,316	1,067	–	112,461
1995								
Revenues (by destination)	37,684	28,299	19,533	5,083	8,727	3,659	–	102,985
Revenues (by operation):								
To unaffiliated customers	56,580	18,893	17,672	4,224	2,893	2,723	–	102,985
Transfers between geographic	19,787	1,273	1,052	68	135	117	(22,432)	–
Total revenues	76,367	20,166	18,724	4,292	3,028	2,840	(22,432)	102,985
Export sales from Germany	–	9,223	1,724	395	5,070	1,209	–	17,621
Net income (loss)	(4,706)	(1,417)	415	(162)	66	75	–	(5,729)
Identifiable assets	65,523	12,677	16,675	3,631	2,723	869	–	102,098

25. SUBSEQUENT EVENTS

In January, 1997 the Group agreed to sell its interests in AEG Electrocom GmbH and AEG/ElectroCom International, Inc., the Group's recognition and sorting systems business, to Siemens AG.

In addition, in February, 1997, the Group's U.S. commercial vehicle subsidiary, Freightliner Corporation, entered into a letter of intent with Ford Motor Company ("Ford") providing for the acquisition by Freightliner of certain of Ford' s heavy duty truck businesses, principally in North America.

(in millions of DM, exept share amounts)

BALANCE SHEETS

ASSETS	December 31, 1996 DM in million	December 31, 1995 DM in million
Intangible assets	6	4
Property, plant and equipment	101	658
Financial assets	27,562	24,310
NON-CURRENT ASSETS	27,669	24,972
Receivables from affiliated companies	9,711	6,868
Other receivables and other assets	1,098	1,267
Securities	6,318	6,706
Cash	1,654	2
CURRENT ASSETS	18,781	14,843
PREPAID EXPENSES	1	.
	46,451	39,815
STOCKHOLDERS' EQUITY AND LIABILITIES		
Capital stock (authorized but unissued capital: DM 337 million)	2,577	2,568
Additional paid-in capital	5,086	4,948
Retained earnings	7,342	6,694
Unappropriated profit	649	–
STOCKHOLDERS' EQUITY	15,654	14,210
Accrued liabilities for pensions and similar obligations	5,948	5,487
Other accrued liabilities	1,121	845
ACCRUED LIABILITIES	7,069	6,332
Accounts payable to affiliated companies	21,378	17,385
Other liabilities	2,348	1,876
LIABILITIES	23,726	19,261
DEFFERED INCOME	2	12
	46,451	39,815

The financial statements of Daimler-Benz Aktiengesellschaft and the consolidated financial statements prepared in accordance with German GAAP were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and an unqualified opinion was rendered thereon. These financial statements will be published in the Bundesanzeiger (federal registry) and filed at the County Court House in Stuttgart. T he financial statements may be obtained from Daimler-Benz AG, Poststelle, 70546 Stuttgart, Tel./Fax. 0711/17-92287.

STATEMENTS OF INCOME

	1996 DM in million	1995 DM in million
INCOME (LOSS) FROM AFFILIATED, ASSOCIATED AND RELATED COMPANIES	2,454	(711)
Interest (expenses) income, net	(18)	116
Other financial income, net	54	149
Cost for research and development	(709)	(671)
General administrative expenses	(425)	(432)
Other operating income	459	464
Other operating expenses	(562)	(303)
RESULTS FROM ORDINARY BUSINESS ACTIVITIES	1,253	(1,388)
Extraordinary results of which from investments in affiliated, associated and related companies DM (5,050) million	–	(5,117)
Income taxes	54	(28)
Other taxes	(9)	(44)
NET INCOME (LOSS)	1,298	(6,577)
Profit carried forward from previous year	–	19
(Transfer to) withdrawal from retained earnings	(649)	6,558
UNAPPROPRIATED PROFIT	649	–

PROPOSAL FOR THE ALLOCATION OF UNAPPROPRIATED PROFIT

The annual financial statements of Daimler-Benz AG as of December 31, 1996, show an unappropriated profit of DM 648,875,451.55. It will be proposed at the Annual General Meeting that this amount be applied as follows:

Dividend amount of DM 1.10 for each share of DM 5.00 par value	DM	566,936,035.60
Profit carried forward	DM	81,939,415.95
Unappropriated profit	DM	648,875,451.55

Stuttgart-Möhringen, March 26, 1997

The Board of Management

Hilmar Kopper
Frankfurt/Main
Member of the Board of Managing Directors, Deutsche Bank AG
Chairman

Karl Feuerstein*)
Mannheim
Chairman of the Corporate Labor Council, Daimler-Benz Group
Deputy Chairman

Willi Bohm*)
Worth
Member of the Labor Council of the Mercedes-Benz Plant Worth

Dr. h.c. Birgit Breuel
Berlin
General Commissioner of EXPO 2000

Prof. Hubert Curien
Paris
Former Minister of Research and Technology of the Republic of France

Dr. jur. Michael Endres
Frankfurt am Main
Member of the Board of Managing Directors, Deutsche Bank AG

Manfred Gobels *)
Stuttgart
Chairman of the Senior Managers' Committee, Daimler-Benz Group

Ulrich Hartmann
Diisseldorf
Chairman of the Board of Management and CEO, VEBA AG

Erich Klemm*)
Sindelfingen
Chairman of the Labor Council of the Mercedes-Benz Plant Sindelfingen

Martin Kohlhaussen
Frankfurt/Main
Chairman of the Board of Managing Directors, Commerzbank AG

Rudolf Kuda*)
Frankfurt/Main
Departmental Manager,
Office of the Board of Management, Metalworkers' Union

Helmut Lense*)
Stuttgart
Chairman of the Labor Council of the Mercedes-Benz Plant Unterturkheim

Walter Riester*)
Frankfurt/Main
Second Chairman, Metalworkers' Union

Jiirgen Sarrazin
Frankfurt/Main
Chairman of the Board of Managing Directors, Dresdner Bank AG

Dr. jur. Roland Schelling
Stuttgart
Attorney at Law

Herbert Schiller*)
Frankfurt/Main
Chairman of the Corporate Labor Council, debis AG
(since 10/25/1996)

Dr. rer. pol. Manfred Schneider
Leverkusen
Chairman of the Board of Management, Bayer AG

Peter Schonfelder*)
Augsburg
Member of the Labor Council, Daimler-Benz Aerospace AG

Prof. Dr. jur. Johannes Semler
Kronberg/Taunus
Attorney at Law

Bernhard Wurl*)
Frankfurt/Main
Departmental Manager,
Office of the Board of Management, Metalworkers' Union

Committees of the Supervisory Board:

Committee pursuant to §27 Sec. 3 MitbestG
Hilmar Kopper (Chairman)
Karl Feuerstein
Prof. Dr. jur. Johannes Semler
Bernhard Wurl

Executive Committee
Hilmar Kopper (Chairman)
Karl Feuerstein
Prof. Dr. jur. Johannes Semler
Bernhard Wurl

Audit Committee
Hilmar Kopper (Chairman)
Karl Feuerstein
Willi Bohm
Dr. h.c. Birgit Breuel

Outgoing Member of the Supervisory Board:
Wolfgang Gabele*)
Bremen
(on 10/04/1996)

*) Employee representatives.

In 1996, the Supervisory Board and the Board of Management jointly reviewed the development and situation of the group at four regular meetings and one extraordinary meeting. Individual issues were also discussed.

The Executive Committee met twice during the course of the year under review and among other things treated matters relating to the Board of Management. The Audit Committee also met twice, and together with the independent auditors discussed the 1995 financial statements and the interim report for the first six months of 1996 at length. The Committee formed pursuant to the German Law on Codetermination did not need to meet.

At each of the meetings, the Board of Management informed the Supervisory Board in detail of the development of business and the financial situation of the Company and each individual business unit with a management report and as part of its monthly reporting. Special events beyond the scope of the individual treatment of issues at the meetings were reported in writing and by means of oral reports. Moreover, the Chairman of the Supervisory Board was continuously advised by the Board of Management in individual meetings.

The regular items treated at the Supervisory Board meeting in February included the business plan for the medium-range future together with the investment, personnel, and earnings planning and the Company's refinancing needs. The 1995 financial statements were reviewed at the meeting in April. In addition, any matters requiring approval as per the articles of incorporation were also discussed.

The selection of the other items treated was governed by the measures resulting from the review of the group's portfolio initiated by the Board of Management in mid-1995. The key topic at the special meeting in January 1996 was thus the discontinuation of financial support for Fokker, and at the meeting in April the merger of AEG AG with Daimler-Benz AG, which became legally effective on September 20, 1996. The group's substantial sources of loss were thus eliminated.

Several important activities were sold as part of the earnings-oriented and strategic streamlining of the portfolio, for instance the Industrial Automation, Power Transmission, and Postal Automation units formerly belonging to AEG. Noteworthy measures taken' at Dasa included the sale of Dornier Medizintechnik and at TEMIC the sale of Bayern-Chemie.

Other individual items the Supervisory Board attended to concerned the negotiations with the German government about the realization of the Eurofighter program at Dasa and the restructuring of Dornier regional jets with the sale of Dasa's majority interest to Eairchild. At debis the Board of Management reported in detail on the risk positions within the Financial Services business unit, the activities relating to the moveable property and real estate leasing fund, and the successful restructuring at Cap Gemini.

Moreover, the Board of Management informed the Supervisory Board in depth on developments at Adtranz and the progress of the project on Potsdamer latz in Berlin. On the basis of the reports described in the foregoing, the Supervisory Board reviewed the management activities of the Board of Management.

In addition, the Board of Management presented the overall strategy of Mercedes-Benz and the strategy for the Asian and Latin American regions. With respect to the commercial sector, the Board of Management elucidated the competitive situation and the cost position in Western Europe and explained the new passenger car projects Smart, A-Class, and M-Class.

At debis the Supervisory Board reviewed the overall strategy and, in particular, the advancing globalization in the financial services sector as well as strategic projects in the Telecommunications and Media Services unit.

The discussion of strategies at Dasa concentrated for the most part on commercial aircraft and in this regard on Dasa's position with respect to the corporate restructuring of Airbus and the development of the A3 XX wide-body jet. At TEMIC, the focus was on the restruc-

turing measures introduced and the streamlining of activities.

In the second half of the year, the Supervisory Board consulted the Board of Management at length about the overall strategy and realignment of the corporate structure including the merger of Mercedes-Benz AG with Daimler-Benz AG, a topic that was ultimately dealt with conclusively at the special Supervisory Board meeting on January 23, 1997. With the new management structure, the Board of Management has created a significantly leaner organization, which will enable the relevant business units to operate more expeditiously and efficiently in the market.

The 1996 financial statements of Daimler-Benz AG, the consolidated financial statements and the combined business review according to German accounting principles were examined, along with the accounting principles used, by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and endorsed with an unqualified audit certificate. With restriction on the proportionate method of consolidation for joint ventures which is used by Daimler-Benz and specifically allowed by the Securities and Exchange Commission (SEC), this is also valid for the consolidated financial statements according to U.S. GAAP. These documents, together with the Board of Management's proposed appropriation of earnings and the independent auditors' audit report, were presented to the Supervisory Board. They were reviewed by the Audit Committee and the Supervisory Board and discussed together with the auditors. The Supervisory Board noted and approved the results of the independent auditors' examination and following its own examination found no grounds for objection. In its meeting on April 11, 1997, the Supervisory Board acknowledged the 1996 consolidated financial statements, approved and ratified the 1996 financial statements of Daimler-Benz AG, and agreed with the Board of Management's proposed appropriation of earnings.

Upon the completion of the merger of AEG AG with Daimler-Benz AG on September 20, 1996, Mr. Stockl resigned from the Board of Management of Daimler-Benz AG.

The Supervisory Board mandate of Mr. Gabele, Chairman of the Corporate Labor Council and the Joint Labor Council of AEG AG, expired in the course of the sale of AEG Anlagen- und Automatisierungstechnik GmbH. Mr. Schiller, Chairman of the Corporate Labor Council of debis AG, was appointed by the Stuttgart District Court as his successor on October 25, 1996.

The Board of Management member responsible for the Research and Technology department, Prof. Weule, resigned from the Board of Management at his own request upon the expiration of his contract on December 31, 1996. The Supervisory Board appointed Mr. Vohringer as his successor on January 23, 1997.

In the meeting on April 3, 1996, the Supervisory Board appointed Dr. Cordes as a deputy member of the Board of Management effective July 1, 1996 and on January 23, 1997 as a regular member of the Board of Management effective April 1, 1997. He is responsible for corporate development and the Directly Managed Businesses.

At his own request Mr. Werner resigned prematurely from the Board of Management effective January 31, 1997

In the meeting on January 23, 1997, the following additional changes in the Board of Management, to take effect on April 1, 1997, were resolved in connection with the new structure of Daimler-Benz AG: Dr. Gentz transferred his responsibility for the Personnel department, which until then he had directed in addition to the Finance department, to Mr. Tropitzsch, who was appointed as personnel director and was newly appointed to the Board of Management alongside Mr. Hubbert (Passenger Car Division), Dr. Lauk (Commercial Vehicle Division), and Dr. Zetsche (Sales and Marketing).

We would like to extend our special thanks to the departing board members for their successful efforts in the Company and for their advice and commitment.

Stuttgart-Mohringen, April 1997
Tie Supervisory Board

Chairman

ADDRESSES

Daimler-Benz AG
D-70546 Stuttgart
Tel. (49) 711-17 1
Fax (49) 711-17 94022

Daimler-Benz Aerospace AG
D-81663 Munich
Tel. (49) 89-607 0
Fax (49) 89-607 26481

Daimler-Benz InterServices (debis) AG
P. 0. Box 33 06 25
D-14176 Berlin
Tel. (49) 30-89787 260
Fax (49) 30-89787 393

Rail Systems
ABB Daimler-Benz
Transportation GmbH
P. 0. Box 13 01 27
D-13601 Berlin
Tel. (49) 30-3832 0
Fax (49) 30-3832 2000

Microelectronics
TEM1C TELEFUNKEN
microelectronic GmbH
P.O. Box 35 35
D-74025 Heilbronn
Tel. (49) 7131-67 0
Fax (49) 7131-67 2340

MTU/Diesel Engines
MTU Friedrichshafen GmbH
D-88040 Friedrichshafen
Tel. (49) 7541-90 0
Fax (49) 7541-90 5000

DAIMLER-BENZ CORPORATE REPRESENTATIVE OFFICES

Bonn/Berlin
Bonn:
Tel. (49) 228-5404 100
Fax (49) 228-5404 109
Berlin:
Tel. (49) 30-31588 200
Fax (49) 30-31588 300

Brussels
Tel. (32) 2-23311 33
Fax (32) 2-23311 80

Jerusalem/Tel Aviv
Tel. (97) 22-56666 15
Fax (97) 22-56666 46

Cairo
Tel. (20) 2-5790 197/198
Fax (20) 2-5790 196

Mexico City
Tel. (52) 5-282 2053
Fax (52) 5-282 2954

Moscow
Tel. (7) 501-926 4039
Fax (7) 501-926 4038

New Delhi
Tel. (91) 124-3473 12
Fax (91) 124-3473 13

Paris
Tel. (33) 1-538300 60
Fax (33) 1-538300 62

Beijing
Tel. (86) 10-6593 6680/6678
Fax (86) 10-6593 6683/6684

Pretoria
Tel. (27) 12-309 1503
Fax (27) 12-324 3152

São Paulo
Tel. (55) 11-758 7171/6611
Fax (55) 11-758 7118

Singapore
Tel. (65) 291 9385
Fax (65) 292 1817

Tokyo
Tel. (81) 3-5572 7130
Fax (81) 3-5572 7127

Washington D.C.
Tel. (1) 202-408 4900
Fax (1) 202-408 4891

Daimler-Benz Liaison Offices

Abu Dhabi
Tel. (97) 12-436 531
Fax (97) 12-436 650

Bangkok
Tel. (66) 2-260 6075
Fax (66) 2-260 6077

Buenos Aires
Tel. (54) 1-801 3585
Fax (54) 1-808 8702

Hanoi (Office temp. in Singapore)
Tel. (65) 295 5721
Fax (65) 299 2564

Hong Kong
Tel. (85) 2-2594 8876
Fax (85) 2-2594 8801

Kiev
Tel. (38) 044-271 7842/7887
Fax (38) 044-277 8555

London
Tel. (44) 171-839 8998
Fax (44) 171-839 9279

Madrid
Tel. (34) 1-322 6161
Fax (34) 1-322 6019

Rome
Tel. (39) 6-41898 405
Fax (39) 6-4121 9097/9088

Shanghai
Tel. (86) 21-6439 5005
Fax (86) 21-6439 5011

Sydney/Melbourne
Tel. (61) 39-566 9266
Fax (61) 39-566 9110

Tashkent
Tel. (7) 3712-406 374
Fax (7) 3712-406 674

Zagreb
Tel. (38) 5127 7696
Fax (38) 5142 8358

	Ownership[1] in %	Stockholders' Equity[2] in Millions of DM	Net Income[2] in Millions of DM		Revenues[3] in Millions of DM		Employment at Year-End	
			1996	1995	*1996*	1995	*1996*	1995
Automotive Business								
Mercedes-Benz AG, Stuttgart	100.0	6,435	*1,665.0*	1,932.0	*59,274*	53,163	*141,120*	139,733
EvoBus GmbH, Stuttgart [4]	100.0	375	*127.6*	13.1	*2,892*	2,679	*9,282*	9,243
Mercedes-Benz Lenkungen GmbH, Düsseldorf	100.0	57	*(4.1)*	6.9	*389*	401	*1,286*	1,326
Mercedes-Benz España S.A., Madrid	100.0	266	*(5.3)*	(32.5)	*2,467*	1,518	*4,127*	2,691
Mercedes-Benz (United Kingdom) Ltd., Milton Keynes [4]	100.0	.[5]	*.[5]*	.[5]	*3,496*	3,109	*975*	962
Mercedes-Benz Nederland B.V., Utrecht [4]	100.0	.[5]	*.[5]*	.[5]	*1,293*	1,053	*518*	515
Mercedes-Benz Belgium S.A./N.V., Brussels	100.0	130	*15.1*	9.9	*1,219*	1,100	*526*	560
Mercedes-Benz France SAS, Rocquencourt [4]	100.0	.[5]	*.[5]*	.[5]	*3,340*	2,958	*1,632*	1,700
Mercedes-Benz Italia S.p.A., Rome [4]	100.0	267	*7.0*	16.0	*2,758*	2,103	*592*	598
Mercedes-Benz (Schweiz) AG, Zurich	100.0	95	*9.7*	1.1	*923*	964	*267*	286
NAW Nutzfahrzeuge AG, Arbon	100.0	25	*1.2*	4.4	*128*	126	*397*	434
Micro Compact Car AG, Biel [4]	51.0	328	*(11.9)*	(4.2)	*–*	–	*328*	239
Mercedes-Benz Hellas S.A., Athens	100.0	2	*22.7*	(2.7)	*229*	186	*148*	148
Mercedes-Benz Danmark AS, Hillerød	100.0	23	*4.0*	1.2	*399*	293	*241*	190
Mercedes-Benz Sverige AB, Stockholm	100.0	10	*(1.4)*	(0.2)	*366*	289	*192*	66
Mercedes-Benz Bohemia s.r.o., Prague	100.0	11	*4.3*	–	*134*	–	*118*	–
Freightliner Corporation, Portland [4]	100.0	.[5]	*.[5]*	.[5]	*7,223*	7,099	*9,822*	10,657
Mercedes-Benz of North America, Inc., Montvale [4]	100.0	.[5]	*.[5]*	.[5]	*6,439*	5,523	*1,249*	1,248
Mercedes-Benz U.S. International, Inc., Tuscaloosa	100.0	.[5]	*.[5]*	.[5]	*–*	–	*634*	263
Mercedes-Benz Mexico S.A. de C.V., Mexico D.F. [4]	100.0	135	*(4.1)*	(72.3)	*248*	141	*789*	750
Mercedes-Benz do Brasil S.A., São Bernardo do Campo	100.0	1,279	*91.5*	100.0	*3,146*	3,852	*10,899*	14,414
Mercedes-Benz Argentina, Buenos Aires [4]	100.0	250	*(18.6)*	(49.9)	*671*	551	*1,600*	1,612
Mercedes-Benz of South Africa (Pty.) Ltd., Pretoria [4]	87.0	105	*(118.3)*	84.5	*1,885*	2,061	*4,058*	4,331
Mercedes-Benz Türk A.S., Istanbul	55.6	81	*31.0*	9.8	*1,067*	718	*3,400*	2,509
Mercedes-Benz Japan Co. Ltd., Tokyo	100.0	290	*59.1*	72.2	*2,915*	2,470	*406*	416
Mercedes-Benz (Australia) Pty. Ltd., Mulgrave/Melbourne [4]	100.0	113	*24.4*	17.3	*742*	575	*683*	720
Aerospace								
Daimler-Benz Aerospace AG, Munich	100.0	4,142	*44.2*	(4,841.6)	*3,080*	2,675	*10,613*	11,142
Daimler-Benz Aerospace Airbus GmbH, Hamburg	100.0	2,586	*1,442.9*	(371.1)	*3,412*	3,557	*15,336*	16,498
Dornier GmbH, Friedrichshafen [4]	57.6	408	*(497.4)*	(553.5)	*1,832*	2,736	*3,998*	7,173
Dornier Satellitensysteme GmbH, Munich	100.0	19	*9.7*	10.6	*818*	889	*1,490*	1,477
MTU Motoren- und Turbinen-Union München, Munich [4]	100.0	266	*37.9*	289.3	*2,309*	1,704	*6,281*	6,729
LFK-Lenkflugkörpersysteme GmbH, Munich	100.0	66	*(51.8)*	(20.0)	*884*	1,044	*1,874*	1,909
Eurocopter Holding S.A., Paris [4]	40.0	960	*(112.7)*	(1,124.8)	*2,792*	2,676	*9,968*	10,373
TDA Armements S.A.S., Paris [4]	50.0	28	*2.0*	(2.1)	*312*	296	*1,024*	1,082
CMS, Inc., Tampa [4]	100.0	30	*9.5*	2.5	*109*	83	*546*	458

	Ownership[1] in %	Stockholders' Equity[2] in Millions of DM	Net Income[2] in Millions of DM 1996	1995	Revenues[3] in Millions of DM 1996	1995	Employment at Year-End 1996	1995
Services								
Daimler-Benz InterServices (debis) AG, Berlin	100.0	1,936	***150.6***	(517.2)	–	–	***239***	238
debis Systemhaus GmbH, Hamburg	80.4	327	***38.8***	24.1	***801***	752	***1,456***	1,396
debitel Kommunikationstechnik GmbH & Co. KG, Stuttgart	60.0	63	***31.5***	12.3	***1,355***	722	***701***	598
Mercedes-Benz Finanz GmbH, Stuttgart	100.0	353	***175.2***	34.0	***279*** [6]	237 [6]	***182***	177
Mercedes-Benz Leasing GmbH, Stuttgart	100.0	66	***183.0***	10.8	***1,452***	1,361	***362***	351
Mercedes-Benz Finance Ltd., Milton Keynes [4]	100.0	. [5]	***.*** [5]	. [5]	***364***	240	***133***	124
Cap Gemini S.A., Paris	24.4	2,482	***82.3***	(33.3)	***4,661***	2,746	–	–
Mercedes-Benz Financement S.A., Le Chesnay [4] [7]	100.0	. [5]	***.*** [5]	–	***157***	–	***142***	–
Mercedes-Benz Finanziaria (Merfina) S.p.A., Rome	100.0	80	***(8.0)***	(1.0)	***201***	160	–	–
Mercedes-Benz Credit, Norwalk [4]	100.0	. [5]	***.*** [5]	. [5]	***3,656***	3,658	***716***	615
Mercedes-Benz Finance Co. Ltd., Tokyo	90.0	90	***21.6***	14.6	***125*** [6]	135 [6]	***30***	25
Directly Managed Businesses								
ABB Daimler-Benz Transportation GmbH, Berlin [8]	50.0	499	***0.8***	–	***6,022***	–	***21,841***	–
TEMIC TELEFUNKEN microelectronic GmbH, Heilbronn	100.0	609	***.*** [9]	. [9]	***1,385***	1,245	***3,392***	3,689
Siliconix incorporated, Santa Clara [4]	80.4	. [5]	***.*** [5]	. [5]	***405***	359	***1,228***	1,269
MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen	88.4	372	***35.4***	20.0	***1,480***	1,314	***4,914***	4,999
L'Orange GmbH, Stuttgart	100.0	20	***3.0***	1.4	***78***	72	***423***	407
MTU Asia Pte. Ltd., Singapore	75.5	45	***6.5***	3.7	***299***	264	***162***	156
Regional Holding and Finance Companies								
Daimler-Benz Holding AG, Zurich	100.0	367	***57.3***	79.7	–	–	***2***	2
Daimler-Benz UK Public Ltd., London [4]	100.0	315	***81.8***	72.9	–	–	***6***	6
Daimler-Benz France S.A., Rocquencourt [4]	100.0	356	***(2.7)***	(36.9)	–	–	***2***	2
Daimler-Benz Holding Nederland B.V., Utrecht [4]	100.0	199	***32.2***	20.3	–	–	–	–
Daimler-Benz Holding Belgium S.A./N.V., Brussels	100.0	180	***16.2***	40.0	–	–	–	–
Daimler-Benz Coordination Center S.A./N.V., Brussels	100.0	672	***32.6***	32.4	–	–	***22***	21
Daimler-Benz España S.A., Madrid	87.9	268	***50.4***	(35.7)	–	–	***12***	14
Daimler-Benz North America Corporation, New York [4]	100.0	4,433	***266.3***	331.0	–	–	***31***	27

1) Relating to the respective parent company.
2) Stockholders' equity and net income/net income before income transfer taken from national financial statements; stockholders' equity converted at year-end exchange rates; net income converted at average annual exchange rates, with the exception of the net income of Mercedes-Benz do Brasil and Mercedes-Benz Türk, which has been converted at year-end exchange rates.
3) Converted at average annual exchange rates.
4) Preconsolidated financial statements.
5) Included in the consolidated financial statements of the holding company in the respective country.
6) Including interest income from sales financing.
7) Not fully consolidated in 1995.
8) Amounts for the ABB Daimler-Benz Transportation group according to IAS.
9) Included in the consolidated financial statements of EHG.

DAIMLER-BENZ IN FIGURES[1]

Number of Employees (at Year-End)	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Daimler-Benz Group	326,288	338,749	368,226	376,785	379,252	376,467	366,736	330,551	310,993	290,029
of which:Germany	262,658	268,277	298,199	303,404	305,295	302,464	284,576	251,254	242,086	222,821
Foreign	63,630	70,472	70,027	73,381	73,957	74,003	82,160	79,297	68,907	67,208
Automotive business	–	–	223,219	230,974	237,442	222,482	209,933	197,568	197,164	199,099
Aerospace	–	–	62,959	61,276	56,465	81,872	86,086	75,581	50,784	44,936
Services	–	–	–	4,879	6,203	8,258	8,812	9,226	10,196	11,500
Directly managed businesses [2]	80,499	89,585	77,722	76,949	76,338	60,784	58,921	44,769	49,432	31,005

DAIMLER-BENZ GROUP - in Millions of DM -	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Current assets	33,438	33,545	41,580	42,408	44,793	51,086	55,003	57,037	60,777	66,817
of which:liquid assets and marketable securities	16,106	14,202	14.638	13,693	10,554	9,830	10,457	14,017	12,300	14,845
Property, plant and equipment	9,105	10,984	13,508	15,057	16,574	19,254	18,921	17,727	16,576	18,225
Leased equipment	2,310	3,678	5,043	6,518	8,092	9,777	11,879	10,209	9,700	11,941
Total assets	46,538	51,931	62,737	67,339	75,714	86,184	90,926	93,536	102,098	112,461
Short-term provisions and liabilities	14,131	16,627	21,995	24,540	28,824	33,236	36,036	37,705	37,342	42,556
Mid- and long-term provisions and liabilities	22,744	24,485	24,331	25,529	28,045	33,833	37,118	36,144	36,411	38,999
Financial debt	–	–	–	–	13,330	17,082	20,728	20,323	22,285	27,182
Stockholders' equity	10,166	11,323	16,966	17,827	19,448	19,719	18,145	20,251	22,860	26,393
of which:capital stock	2,118	2,118	2,330	2,330	2,330	2,330	2,330	2,565	2,568	2,577
Debt to equity ratio	–	–	–	–	0.7	0.9	1.2	1.0	1.0	1.0
Investments in property, plant and equipment [3]	3,783	5,057	4,931	5,667	6,518	6,250	4,488	4,522	4,782	6,212
Investments in leased equipment	1,515	2,538	3,061	3,588	4,191	5,206	5,855	5,593 [3]	6,338	6,100 [3]
Depreciation in property, plant and equipment	2,477	3,028	3,082	3,558	4,076	4,699	5,209	4,918	4,707	4,410
Depreciation in leased equipment	541	877	1,249	1,499	1,764	2,178	2,536	2,275	2,270	2,018
Research and development cost [4]	4,062 [5]	4,744	5,494	8,193	8,401	9,312	9,043	8,692	8,941	8,845
Cash provided by operating activities	–	–	–	–	–	5,328	9,913	11,282	5,455	10,203
Cash used for investing activities	–	–	–	–	–	(7,523)	(10,523)	(10,591)	(10,742)	(12,154)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Revenues										
Daimler-Benz Group	67,475	73,495	76,392	85,500	95,010	98,549	97,737	104,075	102,985	106,339
of which:Germany	28,064	29,094	29,562	36,674	44,443	42,572	38,319	39,015	37,684	39,165
EU excl. Germany	12,483	14,821	16,912	18,876	18,907	22,349	20,049	20,881	24,417	26,104
North America	12,135	11,817	13,032	12,820	12,969	13,881	17,138	19,609	19,533	20,472
Other countries	14,793	17,763	16,886	17,130	18,691	19,747	22,231	24,570	21,351	20,598
Automotive business	–	–	54,969	57,872	65,317	64,849	61,728	68,239	69,585	74,958
of which:passenger cars	31,472	31,833	31,865	34,142	38,331	38,650	36,370	40,107	38,638	43,913
commercial vehicles	19,454	23,063	23,104	23,730	26,986	26,199	25,358	28,132	30,947	31,045
Aerospace	4,421 [6]	4,976 [6]	7,489	12,168	11,974	16,735	18,173	17,053	14,261	12,979
Services	–	–	–	2,739	4,146	5,781	7,103	8,749	9,426	10,798
Directly managed businesses [2]	11,480	13,152	11,852	12,721	13,573	11,184	10,733	10,034	9,713	7,604
Cost of sales	–	–	–	–	–	–	89,964	90,337	86,686	84,742
Purchases of goods and services	33,701	37,646	39,552	44,477	49,456	49,084	51,076	56,289	60,210	60,872
Personnel expenses	20,670	22,371	23,199	26,890	29,372	32,003	33,790	30,108	30,572	27,809
of which:wages and salaries	16,421	17,846	18,864	21,881	23,813	26,138	27,653	24,145	24,265	22,064
Operating profit (loss) [7]	–	–	–	2,924	3,654	2,026	(3,299)	2,708	(7,197)	2,423
Financial results	–	–	–	–	–	–	2,205	226	929	496
Extraordinary result	–	–	–	–	(544)	–	2,603	–	–	–
Net income (loss)	1,782	1,702	6,809 [8]	1,795	1,942	1,451	615	895	(5,729)	2,762
Net income (loss) per DM 5 share, adjusted (in DM) [9] [10]	4.06	3.80	3,92 [11]	3.58	3.98	3.01	1.28	2.16	(11.17)	5.35
Highest share price (in DM) [9]	118.52	73.75	81.81	94.41	78.41	80.58	83.40	89.97	76.10	105.50
Lowest share price (in DM) [9]	55.47	50.77	61.66	53.85	50.05	49.99	52.65	70.36	60.81	72.46

Daimler-Benz AG	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Net income (loss)	1,403	1,382	1,120	1,120	1,194	703 [12]	390	565	(6,577)	1,298
Total dividend amount (paid/proposed)	503	504	555	557	603	604	373	564	–	567
Dividend per DM 5 share (in DM)	1.20	1.20	1.20	1.20	1.30	1.30	0.80	1.10	–	1.10
Tax credit per DM 5 share (in DM) [13]	0.68	0.68	0.68	0.68	0.73	0.73	0.34	0.47	–	0.47
Adjusted amounts: [9]										
Dividend per DM 5 share (in DM)	1.15	1.15	1.18	1.18	1.29	1.29	0.79	1.10	–	1.10
Tax credit per DM 5 share (in DM) [13]	0.65	0.65	0.67	0.67	0.72	0.72	0.34	0.47	–	0.47

1) Until 1994 values according to German GAAP (HGB).
2) Until 1995 values for AEG Daimler-Benz Industrie.
3) Excluding book values from the first-time consolidation of companies.
4) Including R&D for third parties.
5) Germany only.
6) Consolidated values of Dornier and MTU included in group revenues.
7) Until 1994 operating profit according to German GAAP (HGB).
8) Due to non-recurrent income and expense items not comparable with other years.
9) Comparably calculated on the basis of capitalization issues.
10) Excluding minority interests.
11) Comparably calculated.
12) Excluding extraordinary income of DM 4,490 million.
13) For our stockholders who are taxable in Germany.

FUNDAMENTAL DIFFERENCES

German and U.S. accounting principles are based on fundamentally different perspectives. While accounting under the German HGB emphasizes the principle of caution and creditor protection, the availability of relevant information for shareholder decision-making is the chief objective of U.S. accounting. The comparability of the financial statements - both from year to year and from company to company - and the determination of performance on an accrual basis therefore rank higher under U.S. GAAP than under the HGB.

PROVISIONS

In U.S. accounting practice, provisions are not listed separately as a rule, but under liabilities. In order to comply with the stipulations of the EU guidelines, we still list provisions in the balance sheet notwithstanding the American treatment. The possibilities to form provisions are significantly more restrictive under U.S. GAAP than under the HGB. Provisions can be formed when an obligation exists towards a third party that is likely to be satisfied and when the anticipated amount of the necessary provision can be reliably estimated. Provisions for expenses are not allowed under American regulations as a rule.

Unlike in German accounting, pension provisions are determined in consideration of anticipated wage and salary increases. Rather than using the 6% discount rate employed in German tax law, the relevant real interest rates of individual states define the U.S. value.

GOODWILL

According to American accounting principles, goodwill has to be capitalized and amortized over its expected period in use. The period in use in this instance depends on the type of business acquired. Offsetting this value against stockholders' equity, which is an option under the HGB, is not allowed.

UNREALIZED PROFITS

Under German law the imparity principle means that only unrealized losses must be included in the balance sheet, while under U.S. GAAP certain unrealized profits also have to be recorded.

This becomes most relevant in the calculation of unrealized profits from the evaluation of foreign currency amounts as at the balance sheet date and from derivative financial instruments.

According to German accounting regulations, securities are to be valued at the lower of cost or market. American regulations, on the other hand, call for securities to be reported at the higher market prices as well; the changes in the market value are either to be reflected directly in the profit and loss statement or in stockholders' equity.

For long-term production, revenues and expenses are booked in accordance with the realization principle, while under U.S. GAAP the percentage of completion method is used.

LEASING

Under U.S. GAAP, the accrual of leased equipment is not related to the legal owner, but the economic owner. In a capital lease (sales financing) the risks and opportunities arising from the ownership of leased equipment are primarily realized by the lessee, without the lessee simultaneously acquiring legal ownership. U.S. GAAP treat such a capital lease like a purchase, in other words, the lessee capitalizes the leased equipment and lists a relevant liability. The lessor, in turn, records a receivable from sales financing and revenue from the sale of the leased equipment.

DEFERRED TAXES

In accordance with U.S. GAAP, capitalized or accrued deferred taxes have to be reported if they are derived from temporary differences between tax valuations and valuations in the consolidated balance sheet. Tax losses carried forward represent an economic benefit because of the reduced tax payments in future balance sheets. At the time the loss arises, the future or deferred tax advantage is capitalized in relation to its realizability.

SHAREHOLDER INFORMATION

Publications for our shareholders:
Daimler-Benz Annual Report
(German, English and French)
Form 20-F
(English)
Mercedes-Benz Annual Report
(German and English)
Daimler-Benz Aerospace (Dasa) Annual Report
(German and English)
Daimler-Benz InterServices (debis) Annual Report
(German and English)
Daimler-Benz Interim Reports for 1st, 2nd and 3rd quarters
(German, English and French)
Disk with financial information
(English; editable MS EXCEL tables)

The above publications can be requested from:
Daimler-Benz AG
D-70546 Stuttgart

The information can also be ordered by phone (answering machine) or fax under the following number:
(49)711-17 92287

Additional information on Daimler-Benz is available on the internet at http://www.daimler-benz.com.

Investor Relations:
Tel: (49) 711-17 92283 or 17 92261
Fax: (49) 711-17 94109

Balance Sheet Press Conference:
April 16, 1997
10:00 am
Kultur- und KongreBzentrum (Congress Centre)
Stuttgart, Germany

Annual General Meeting:
May 28, 1997
10:00 am
Hanns-Martin-Schleyer-Halle
Stuttgart, Germany

Daimler-Benz will be reporting on the first quarter of 1997 at the Balance Sheet Press Conference on April 16, 1997, on the first six months with a semi-annual report published on July 31, 1997, and on the first nine months at the beginning of November 1997.

Conception and content:
Daimler-Benz AG, RKB
Design:
Peter Schmidt Studios, Hamburg
Daimler-Benz AG, KOM

This report has been printed on the Igepa-paper "Evergreen" produced with 100% chlorine-free bleached flbves ItfiY