DAIMLERBENZ

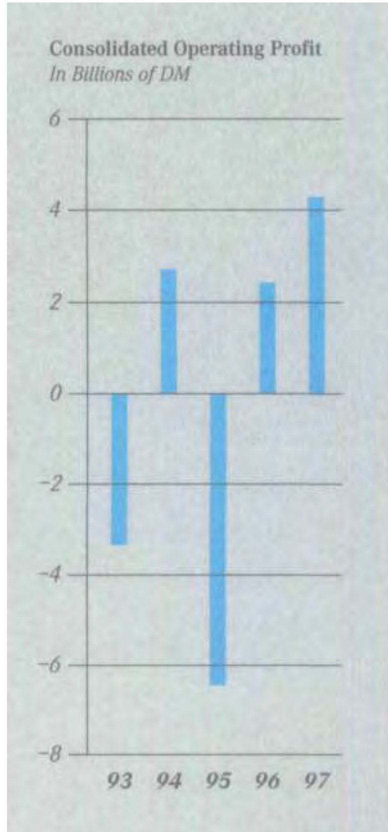
AKTIENGESELLSCHAFT

Annual Report 1997

Daimler-Benz Group

DM Amounts in Millions	1997	1996	1995
Revenues	*124,050*	106,339	102,985
Germany	*41,055*	39,165	37,684
Foreign	*82,995*	67,174	65,301
Employees (at Year-End)	*300,068*	290,029	310,993
Germany	*225,266*	222,821	242,086
Foreign	*74,802*	67,208	68,907
Research and Development Cost	*9,756*	8,845	8,941
Investments in Property, Plant and Equipment	*6,942*	6,212	4,850
Cash Provided by Operating Activities	*11,242*	10,203	5,455
Operating Profit (Loss)	*4,328*	2,423	(7,197)
Net Income (Loss) Acc. to Statements of Income	*8,042*	2,762	(5,729)
Per DM 5 Share (in DM)	*15.59*	5.37	(11.17)
Net Income (Loss) Adjusted*)	*3,172*	–	–
Per DM 5 Share (in DM)	*6.15*	–	–
Capital Stock	*2,584*	2,577	2,568
Net Income (Loss) of Daimler-Benz AG	*5,795*	1,298	(6,577)
Dividend per DM 5 Share (in DM)	*1.60*	1.10	–
Special Distribution per DM 5 Share (in DM)	*20.00*	–	–

*) Excluding non-recurring tax benefits.

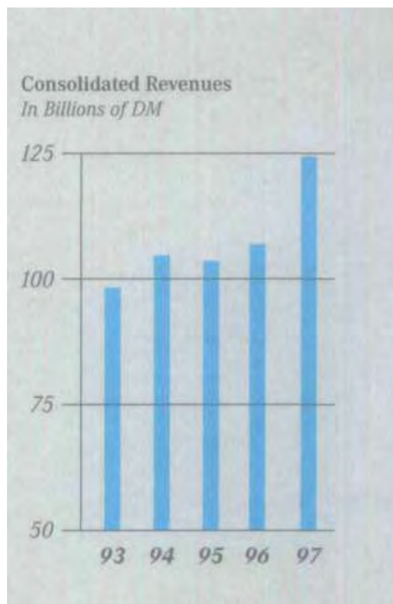


Value Creation by Innovation

Daimler-Benz is the world leader in innovative, high quality transportation products, Systems and Services. Innovations drive growth. This is why they are a central element in our value-based management. Innovative products, technologies, and Services are decisive for market success. But they also form the basis for secure and attractive Jobs as well as productive and long-term relations with our suppliers (page 46).

Daimler-Benz generates four fifths of its revenues with products that are less than five years old.

The photographs in this annual report show some of the Group's most outstanding innovations and the employees behind them.



DaimlerBenz
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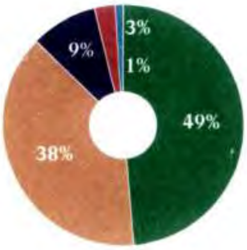
Passenger Cars	Mercedes-Benz Smart
Commercial Vehicles	Trucks Europe Commercial Vehicles NAFTA Vans Europe Drive Trains Europe Buses Europe Commercial Vehicles Latin America Unimog
Aerospace	Civil Aircraft and Helicopters Defense and Civil Systems Aeroengines Military Aircraft Satellites Space Systems Infrastructure
Services	Financial Services/ Insurance Brokerage IT Services Telecommunications and Media Services Trading Real Estate Management
Directly Managed Businesses	Rail Systems Automotive Electronics*) MTU/Diesel Engines

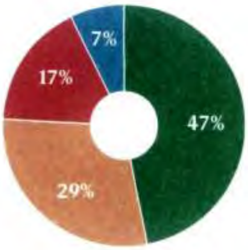
*) Until December 31, 1997: Microelectronics.



Percentage of Sales:

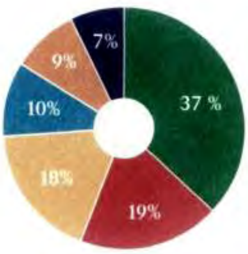
- A-Class
- C-Class
- E-Class
- S-Class/SL
- M-Class/G-Class

Passenger Cars	*1997*	1996
DM Amounts in Millions		
Operating Profit[1]	*3,132*	3,090
Revenues[2]	*53,892*	46,652
Sales (Units)	*715,055*	644,957
Investments in Property, Plant and Equipment	*3,687*	2,893
R&D	*3,097*	2,906
Employees	*91,753*	83,732



- Vans
- Light- and Medium Weight Trucks/Unimogs
- Heavy-Weight Trucks
- Buses

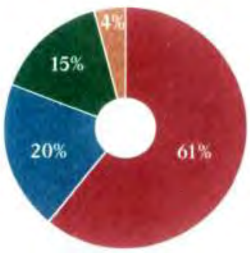
Commercial Vehicles	*1997*	1996
DM Amounts in Millions		
Operating Profit[1]	*481*	(354)
Revenues[2]	*39,140*	32,152
Sales (Units)	*417,384*	348,087
Investments in Property, Plant and Equipment	*1,175*	1,598
R&D	*1,177*	1,090
Employees	*85,071*	80,483



Percentage of Revenues:

- Civil Aircraft and Helicopters
- Defense and Civil Systems
- Aeroengines
- Military Aircraft
- Satellites
- Space Systems Infrastructure

Aerospace	*1997*	1996
DM Amounts in Millions		
Operating Profit	*432*	(196)
Revenues[2]	*15,286*	13,053
Incoming Orders	*19,399*	17,076
Investments in Property, Plant and Equipment	*495*	584
R&D	*4,367*	3,681
Employees	*43,521*	44,936



- Financial Services/ Insurance Brokerage
- IT Services
- Telecommunications and Media Services
- Other Business Units

Services	*1997*	1996
DM Amounts in Millions		
Operating Profit	*457*	288
Revenues[2]	*15,498*	13,143
Investments in Property, Plant and Equipment	*367*	225
Employees	*14,898*	11,500

- Rail Systems
- Microelectronics
- MTU/Diesel Engines

Directly Managed Businesses	*1997*	1996
DM Amounts in Millions		
Operating Profit	*(129)*	(585)
Revenues[2]	*7,555*	8,014
Incoming Orders	*8,279*	7,910
Investments in Property, Plant and Equipment	*512*	502
R&D	*782*	816
Employees	*28,293*	31,005

1) For consolidated operating profit of automotive business see page 100.
2) Unconsolidated figures of the business.

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Ladies and Gentlemen,

1997 was a successful year for your company. We have made further progress. The strategies are working.

We are dedicated to creating value for our shareholders, our customers and our employees. The results demonstrate this:

- *Total revenues rose 19% to DM 124 billion*
- *Operating profit increased 79% to DM 4.3 billion*
- *Net income increased 15% to DM 3.2 billion excluding one-time tax effects*
- *Correspondingly earnings per share also increased 15% to DM 6.15*
- *We have proposed a dividend increase from DM 1.10 to DM 1.60 per 5-DM share, the highest ever for Daimler-Benz*
- *And we have also proposed a DM 10.3 billion extraordinary payout or DM 20 per share. In a second move the equity capital is to be raised again by a capital increase in the amount of DM 7.4 billion to the level reached prior to the extraordinary payout*
- *We have completed the refocusing of the group portfolio. With today's 23 business units your company is well positioned for the future*
- *At the same time, growth enabled us to create 12,000 jobs in 1997*
- *Capital expenditures grew from DM 6.2 billion to DM 6.9 billion*
- *We increased market shares and achieved all-time highs in sales of passenger cars, commercial vehicles, commercial aircraft and aeroengines*

And we have boosted your company's earning power substantially. The performance of our business units is measured by return on their capital employed (ROCE), and each has its achievements benchmarked against the best of its competitors worldwide. In the short term, we have set a target of a minimum 12%.

In 1997 we exceeded our expectations for Daimler-Benz. ROCE almost doubled from 5.8% last year to 10.2% and our target of 12% ROCE for the company as a whole is now in reach.

This performance is the result of firm management action and reflects the new entrepreneurial spirit that is taking hold in your company. Our people around the world have done a tremendous job.

We are also demonstrating our commitment to create value for our shareholders with the proposed extraordinary payout of DM 10.3 billion, thereby distributing retained earnings and unlocking tax credits for our shareholders.

In 1997, we were pioneers in the following areas in our efforts to implement value-based management:

- *We enabled many of our employees to participate directly in the company's financial performance and I am delighted to say that today our people see operating profit as a measure of their contribution.*
- *We extended our stock option plan to all 1,400 senior managers.*

Efficiency and Transparency Pay Off

We have been working hard to make your company more efficient. In 1997, we put in place a new management structure, trimmed our head offices and merged Mercedes-Benz AG and Daimler-Benz AG. As a result we became leaner, faster and more flexible.

In addition, we examined all our work processes and focused on value creation at every level of the business.

Management reporting systems were simplified and the decision making processes were dramatically shortened. As a result, we have substantially cut costs and have much greater transparency - internally as well as externally.

This is due not only to our new controlling, reporting and planning systems but also to the introduction of knowledge management so as to make our worldwide know-how accessible throughout the group. The extension of our intranet and the standardization of electronic communication systems are key elements. The increase in speed and quality resulting from all these measures is improving our responsiveness in the market.

You will see evidence of our greater transparency in this report. For the first time, we show each division's operating profit, capital employed, and return on capital employed. You will also see projections of revenues, sales, capital investments and research and development outlays to the year 2000.

Today, your company has exciting growth opportunities in each of the markets we serve. Our target is to double our turnover in ten years' time. We are stronger and in a better position than ever before to take advantage of these opportunities.

Where Are We Going?

We are dedicated to helping move people and products by road, rail, in the air and on water - efficiently, comfortably, affordably and in environmentally-friendly ways. We therefore will be a world leader in high quality, innovative transportation products, systems and services.

In everything we do, we want to be among the world's best. It is the market leaders that set the standards, set the rules of the game, and open up new market segments.

How Will We Do This ?

Our strategy for growth embraces three core elements. These are

- *value-based management*
- *innovation*
- *globalisation through regionalisation*

Growing through Value-Based Management

Value-based management simply means setting as our primary goal the creation of value for

- *our customers - great products, systems and services that delight them and address their needs*
- *our employees - a great company to work for*
- *and for you, our shareholders - great results and world class returns*

Our job is to unleash the huge energy, creativity and intellectual potential of our people.

In each business unit we are identifying the most important value and cost drivers that can be directly influenced by management. Then we link them to specific incentive schemes. This encourages every manager to think and act like an entrepreneur and be rewarded like one. This also involves convincing our employees that capital and assets are not available for free and that they, therefore, have a responsibility for helping us to manage them profitably.

At Daimler-Benz we have one of the most creative and skilled workforces. We are also fortunate to have works committees that understand that only businesses that are flexible and create real value can also provide job security and better prospects for all employees.

Following the positive results of more than a dozen agreements at shop floor level, in March 1998 we established a forward-looking agreement with our unions in the service industry. This includes a unique new package of flexible working hours, performance-based remuneration and training. Here again, Daimler-Benz and its unions took a lead in Germany.

Performance-based remuneration is just one of the steps taken throughout the company to make every employee aware that they have a direct stake in the successes of their company. Employee bonuses are now dependent on the achievements within each business. Currently, nearly 200,000 of our active and former employees are shareholders. In concert with our works councils and unions, we will build on these achievements and will strive to offer staff even further opportunities to participate as shareholders in the future of this company.

Value-based management also requires a new approach in our management philosophy:

- *we want people to be entrepreneurs and to create value*
- *we encourage them to take risks*
- *and in doing so we accept that making mistakes is unavoidable.*

Take our Mercedes-Benz A-Class as an example. This is one of the most innovative cars ever produced. Our engineers developed 25 major innovations for the A~ Class, which was recognized by the automotive world as an extraordinary achievement in vehicle design.

When the now-famous "moose-test" revealed defects in the car's stability, we acknowledged the problem and moved swiftly to correct it. Everyone in the company rallied around to get the A-Class back on track and the team spirit during this crisis was amazing.

We fixed the problem. Today the A-Class sets new safety standards in its class and research shows our brand Mercedes-Benz is stronger as a result of the way we handled the situation. Instead of looking for a scapegoat, we analysed and improved our processes. This is what we mean by a learning organisation.

Innovation Drives Growth

Having great products and excellent know-how today is not enough to secure our success tomorrow. Innovation is what drives growth further. Only companies with a culture of innovation from top to bottom are price-value leaders, stay ahead of competitors, capture market share, earn a premium return on their products and services and are able to both finance expansion and appropriately reward shareholders and employees.

What do we mean by innovation? We mean establishing a corporate environment where everyone is thinking creatively. Challenging the way things are done because they can always be done better, quicker, more economically. Connecting people across organisational boundaries. And it has to be continuous.

The enemy of creativity is complacency. In fast-changing global markets, leadership can soon be lost to more agile marketers, more imaginative designers and to those able to leapfrog over today's technology into tomorrow's.

But Innovation does not only mean research and development. It also means more efficient, lower-cost and more productive work processes. It means finding ways to bring new products to market more quickly so that we are always ahead of the competition.

Let me give you just some examples of how innovation drives growth in Daimler-Benz.

- *80% of our products were introduced in the last five years.*
- *We used to bring out three car models every ten years - now we introduce ten new models in three years.*
- *We have introduced 15 new aircraft and helicopter models in the last five years, compared with 10 new models in the previous 10 years.*
- *In 1997 we have applied for more than 5.700 new patents worldwide.*
- *We have introduced a completely new range of commercial vehicle models which will help to win market share and make profits, particularly in Europe.*
- *We have renewed our complete range of trains and rail systems.*
- *We installed the world's first dynamic route-finder system in Tokyo.*
- *We are leading the world in the development of the fuel cell car, and are well-positioned to be the first with a vehicle in the market in a few years' time.*
- *We led the market with our electronic stability program (ESP) specially developed for our cars. We will offer ESP as standard in all of our cars by the year 2000.*

Last year we spent DM 9.8 billion in research and development, and we plan to keep up this pace.

Globalisation through Regionalisation

Daimler-Benz is firmly rooted in Germany with a proud tradition of engineering quality and innovation.

But today, we serve customers in more than 200 countries around the world. More than two thirds of our revenues come from outside Germany and more than one third of our stock is held internationally.

And the key to further growth is to tap new markets for our products. So we have to be where the markets are.

For example, we have said that we aim to increase our group revenues in Asia from 8% in 1997 to between 20 and 25% in 10 years' time. We have now put in place a new structure by which five CEOs have responsibility for all Daimler-Benz businesses in their respective region. Our people are working at full steam on some exciting projects.

Globalisation is about regional development. Just as we are a corporate citizen of Germany, so we are also a corporate citizen wherever we have major plants and investments. And we exercise the same care and concern for our employees and their communities wherever we are.

In 1997 we inaugurated new plants in Tuscaloosa, USA, in Hambach, France, in Bad Cannstatt, Germany and in Rastatt, Germany. In 1998 we will open a new facility in Brazil. In each location we have far-reaching programs to demonstrate and communicate our social and environmental responsibility to these communities.

Concern for the environment is an integral part of the way we do things at Daimler-Benz.

We have developed solutions for problems of urban mobility and logistics. Our products are designed with the potential environmental impact they will have throughout their lifecycle in mind - and this includes the recycling phase at the end of each product's life. Our factories worldwide have been built to the most modern environmental standards. And we have launched extensive research that will translate into ground-breaking environmental technologies.

We act on the environmental issue. We don't just talk about it: With the fuel cell we are working to significantly reduce the $C0_2$-output of future vehicles. The Airbus adaptive wing technology saves up to 10% of fuel consumption in aircraft. Our common rail diesel engines combined with direct injection technology set new benchmarks in eco-efficiency.

Only People Create Value

In a changing world of work, where lifetime contracts are a thing of the past and continous change and flexibility are the name of the game, building and retraining teams of high quality people is no easy task. But we are doing it.

Greater international awareness will be critical as we grow Daimler-Benz into a truly global company and more of our managers face the challenge of operating in societies very different from their own. So they need to develop an international mind-set.

We fast-track young managers from around the world, and this year the Daimler-Benz corporate university will be fully operational. This will help our people attain the highest international standards of management.

Daimler-Benz is a company on the move. We are setting the pace in our industries. We are setting standards. We know where we want to go. Our people understand this. We are securing their skills, their professionalism and their commitment and we reward them exceptionally when our performance is exceptional.

The results are there to see. Their ideas, their initiatives and their energy are transforming our products, systems and services and enabling us to win market shares against the trend in a competitive global environment.

We want Daimler-Benz to be an exciting place to work.

Your Company Is an Excellent Growth Opportunity

Innovation, Globalisation, Value. The strategies are working. The stage is set for growth and an increase in the value of your company. But we know that there are still great challenges ahead of us. And we also know that we will face set-backs. But our objective is clear:

- We will continue to be the benchmark for quality and innovation
- We will be a world leader in each of our businesses
- We will further extend the global reach of the company

We are on the right track. We know what we have to do. But at the end of the day, the best measurement of our performance is your continued confidence as investors.

Thank you for your support.

Sincerely

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

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

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

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

Klaus-Dieter Vöhringer
born 1941 in Dessau, member of the Board of Management since 1997, responsible for Research and Technology, 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. jur. Manfred Gentz
born 1942 in Riga, member of the Board of Management since 1983, responsible for Finance and Controlling, 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, under contract until 2000.

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

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

Retired from the Board of Management: Helmut Werner (on 01/31/1997)

Earning Power Substantially Strengthened

In 1997, Daimler-Benz increased its operating profit, the standard for measuring the earning power of operating activities, to DM 4.3 billion (1996: DM 2.4 billion). The Group's return on capital employed rose to 10.2% (1996: 5.8%). This means we have taken a big step closer to the 12% we set as a minimum return for the Group. We have continued to expand the instruments of our value-oriented management at all corporate levels. Net income determined in accordance with U.S. accounting standards reached DM 8.0 billion (1996: DM 2.8 billion). Adjusted for extraordinary tax effects, the respective figure totaled DM 3.2 billion. Due to the significantly improved operating profit we recommend to our shareholders that the dividend for fiscal 1997 be increased from DM 1.10 to DM 1.60 per share. *(Page 58)*

Operating Profit

in Millions of DM	1997	1996
Daimler-Benz Group	4,328	2,423
Passenger Cars*)	3,132	3,090
Commercial Vehicles*)	481	(354)
Aerospace	432	(196)
Services	457	288
Directly Managed Businesses	(129)	(585)

*) For consolidated operating profit of automotive business see page 100.

Revenues

in Millions of DM	1997	1996
Daimler-Benz Group	124,050	106,339
Passenger Cars	53,892	46,652
Sales Units ('000)	715	645
Commercial Vehicles	39,140	32,152
Sales Units ('000)	417	348
Aerospace	15,286	13,053
Services	15,498	13,143
Directly Managed Businesses	7,555	8,014

Special Distribution of DM 20 Per Share

As a result of the mandatory reclassification of stockholders' equity at year-end 1998 we propose to our shareholders that DM 7.4 billion of the retained earnings of Daimler-Benz AG be distributed. Including the resulting DM 2.9 billion reduction in corporate income tax, the total distribution would be DM 10.3 billion, or DM 20 per share. The funds drawn from retained earnings would be restored to the Company by a subsequent capital increase. *(Page 62)*

Consolidated Revenues Up 19%

When comparably calculated, consolidated revenues rose by 19% in 1997 to DM 124.1 billion. Growth was especially pronounced in the USA (+26%) and in Germany's partner countries in the European Union (+21%). Revenues generated in Germany increased by 5%. *(Page 56)*

Corporate Portfolio Enhanced

We continued to strengthen the core activities of the Group with new acquisitions. The takeover of the heavy trucks business from Ford in North America was especially important, as was the acquisition of the defense electronics business from Siemens, which is still awaiting approval of the cartel authorities. We withdrew from our involvement in Cap Gemini, and TEMIC's Semiconductor unit was sold to the U.S. company Vishay in early 1998. *(Page 56)*

Twelve Thousand New Jobs

Thanks to the market success of our products and services and the significantly improved competitiveness of the individual business units, we were once again able to create new jobs throughout the Company in 1997. The number of employees within the Group rose by 4%, when comparably calculated, to a total of 300,068 persons. *(Page 57)*

Passenger Cars: Success with New Models

The Passenger Car Division recorded new record highs in sales and revenues as a result of the market success of the new models we introduced in 1996 and 1997. Despite large investments made for innovative new models, operating profit slightly exceeded the previous year's level. The introduction of the M-Class in the USA was among the most important events in the year under review. With this new off-road vehicle Mercedes-Benz is now present in the world's largest passenger car market with a locally produced series.

After suspending deliveries shortly after its market debut, we resumed delivering the A-Class to our customers in February 1998 with a new chassis configuration and ESP (Electronic Stability Program) as a standard feature. *(Page 16)*

Commercial Vehicles: Dynamic Growth

We sold 417,400 commercial vehicles in 1997; this means that we beat the record set in the previous year by another 20%. We managed to steadily increase our market share in Western Europe with the Actros heavy truck series, which we expanded by introducing construction and special application vehicles in September 1997. The division's revenues rose by 22% and reached DM 39.1 billion. We recorded vigorous growth in North and South America as well as in Western Europe. Due to favorable business developments and the measures to improve productivity the division was profitable. *(Page 97)*

Investments in Property, Plant and Equipment in Millions of DM	*1997*	1996
Daimler-Benz Group	*6,942*	6,212
Passenger Cars	*3,687*	2,893
Commercial Vehicles	*1,175*	1,558
Aerospace	*495*	584
Services	*367*	225
Directly Managed Businesses	*512*	502

Research & Development*) in Millions of DM	*1997*	1996
Daimler-Benz Group	*9,756*	8,845
Passenger Cars	*3,097*	2,906
Commercial Vehicles	*1,177*	1,090
Aerospace	*4,367*	3,681
Directly Managed Businesses	*782*	816

*) Including third-party contracts (DM 4.1, 1996: DM 3.3 bill.)

Aerospace: Incoming Orders at an All-Time High

The Aerospace Division experienced a dynamic boost in earnings in 1997 as a result of the successfully implemented competition drive. When comparably calculated, revenues rose 20% to DM 15.3 billion, and incoming orders reached a new high at DM 19.4 billion. Demand for civil aircraft and aircraft propulsion systems was especially brisk. We will decisively improve our international competitive position with our collaboration with Matra-BAe Dynamics and the acquisition of the defense electronics business from Siemens. The decision of the German government and the German Bundestag to procure the Eurofighter was of major importance for the future of the Military Aircraft unit. *(Page 30)*

Upward Trend in Services Continues

As in previous years, debis succeeded in improving its business volume and operating profit in 1997. The Financial Services unit remained the most significant source of revenues. But the IT Services and Telecommunications and Media Services units also contributed appreciably to the 22% increase in revenues to DM 15.5 billion. We continued to pursue our globalization strategy by establishing new companies in nearly every field of activity and penetrating additional markets. The focus was primarily on Eastern Europe and the Asia Pacific region.

After only three years of construction, the new debis administrative headquarters on Potsdamer Platz in Berlin was ready for occupation on October 24, 1997. *(Page 35)*

Directly Managed Businesses: Revenues Continue to Rise

The Rail Systems, Microelectronics, and MTU/Diesel Engines units developed favorably in 1997 on the whole. Incoming orders for Adtranz, our rail systems joint venture, were 30% higher than in the previous year. Extensive restructuring measures were introduced in the interest of generating profitable results in the future. The revival of business within TEMIC was especially pronounced in the automotive electronics sector, where revenues rose by 52% and incoming orders were up 64%. The Diesel Engines unit continued the gratifying upward trend of the past few years. *(Page 39)*

Investments Reach DM 6.9 Billion

We increased our investments in property, plant, and equipment to DM 6.9 billion in 1997 (1996: DM 6.2 billion). The emphasis was on preparations for new passenger car and commercial vehicle models, the new engine plants in Bad Cannstatt and Untertürkheim, and the expansion of production capacities and the product program at Airbus. *(Page 57)*

DM 9.8 Billion for Research and Development

We spent DM 9.8 billion on research and development in 1997 (1996: DM 8.8 billion). Of this amount, DM 4.1 billion (1996: DM 3.3 billion) was allocated to contract-dependent development services, which were primarily provided in the Aerospace Division. The majority of the funds for Group projects was once again invested in the automotive business. *(Page 58)*

The Daimler-Benz share was off to a good start in 1997, and in the course of the year reached a new all-time high. In the second half of the year its performance lagged that of the German stock index. After a survey regarding the shareholder structure completed in March 1998 Daimler-Benz has some 550,000 shareholders. About 37% of our issued shares are held by foreign investors, 10% are held in the USA.

Stock Markets Rally

The stock markets in Western Europe and North America improved on the favorable performance of 1996 yet again in 1997. However, the collapse of the Asian stock markets led to dramatic fluctuations in the last quarter. In New York the Dow Jones still managed to increase by 23% in the course of the year, while the London FTSE-100 Index gained 25%. In contrast, the Japanese Nikkei Index experienced a 21% setback.

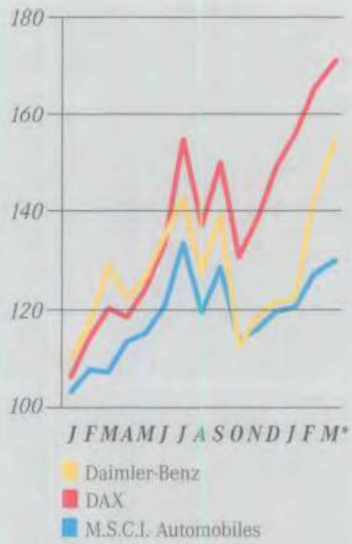
The German Stock Index (DAX) rose 53% to 4,406 points by the end of July as compared to year-end 1996. This development was largely tied to the steep rise of the U.S. dollar. The effects of the financial crisis in Asia in particular prompted consolidation efforts in the remaining part of the year. At year-end the DAX closed with a 47% increase at 4,224 points.

The prevailing mood of the German stock exchanges remained upbeat in the first three months of 1998 as well.

The Daimler-Benz Share

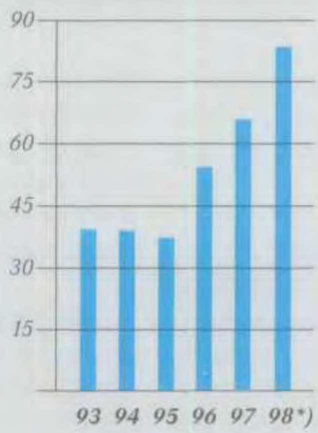
The Daimler-Benz share consistently outperformed the DAX for the first six months of 1997. On February 4 it broke the record of DM 122.07 that was set more than ten years ago, and on July 31 the Daimler-Benz share reached another new high at DM 161.85.

Share Price Index



*) until 03/13/1998

Market Capitalization
(at the end of the reporting period)
In Billions of DM



*) until 03/15/1998

Following the publication of our interim report for the first six months of 1997, which was perceived with some reservation due to very optimistic market expectations, the development of our share price was more restrained than the overall market for the rest of the year. At year-end, the listed price for the Daimler-Benz share was DM 126, or 19% higher than it had been twelve months earlier. When viewed over the course of fiscal 1997, the development of our share was nearly equivalent to the internationally compiled M.S.C.I. Automobiles Index on the whole. On March 25, 1998 our share price reached another all-time high at DM 175.30.

Our stock remains one of the most actively traded in Germany; in 1997 1.8 billion shares were traded on the German stock exchanges. On the German Futures Exchange, options on Daimler-Benz shares were also among the most heavily traded values at some 927,000 contracts. A total of 216 million Daimler-Benz shares changed hands on foreign stock exchanges in 1997. Trading in London and New York was especially brisk.

The DAX weighted the Daimler-Benz share at 6.58% at the end of February. In the new European stock index Dow Jones Stoxx 50, our share was weighted at 1.99%.

Statistics per DM 5 Share in DM	1997	1996
Net income[1]	*6.15*[3]	5.37
Net income (fully diluted)[2]	*6.08*[3]	5.35
Dividend	*1.60*[4]	1.10
Special distribution	*20.00*[4]	–
Stockholders' equity (12/31)	*62.27*[5]	51.21
Number of shares (12/31) in millions	*516.7*	515.4
High share price	*161.85*	106.40
Low share price	*103.60*	72.40

1) Based on the weighted average number of shares outstanding.
2) On the assumption that all convertible bonds and notes exercisable in 1997 are converted.
3) Excluding non-recurring tax benefits.
4) Proposed.
5) Excluding tax benefit from special distribution.

A 10,000 DM Investment in Daimler-Benz Shares

Investment date	Jan. 1988	Jan. 1993	Jan. 1995
Investment duration (years appr.)	10	5	3
Portfolio value at the end of February 1998 (in DM)	35,237	32,301	21,768
Average annual return in %			
from an investment in DEM	13.1%	25.2%	27.4%
from an investment in USD	11.5%	22.5%	21.0%
from an investment in GBP	12.8%	20.1%	18.7%
Performance of the DAX	16.8%	25.0%	30.5%
Performance of M.S.C.I. Auto.[1]	9.9%	20.3%	17.5%

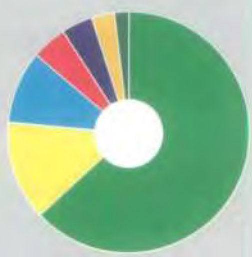
1) Morgan Stanley Capital International Automobiles Index.

Capital Stock

The capital stock of Daimler-Benz AG increased by DM 6.8 million in 1997 and reached DM 2,584 million. Of this amount, DM 6.3 million were used for the issuance of shares to employees; another DM 0.5 million resulted from the exercise of stock options and conversion rights from the 1996 option issue and the 1997 bond issue with mandatory conversion.

With a market value of DM 83.5 billion and more than 500,000 shareholders, Daimler-Benz AG is among the largest public companies in Germany. Some two thirds of our shares are widely held. Major shareholders include Deutsche Bank with some 22% and the Republic of Kuwait with about 13%.

Capital Stock by Countries



Germany	63.2 %
of which:	
institutional investors	48.1 %
private investors	15.1 %
Benelux	4.0 %
United Kingdom	4.8 %
Switzerland	3.2 %
U.S.A.	9.8 %
Kuwait	13.2 %
Others, not registered	1.8 %

Development of a Daimler-Benz Portfolio

The return on stock investments is closely tied to the share price when the stock is purchased and sold. Foreign investors also have to take the effects related to changing currency parities into account, which means that their return can vary considerably from the return in German marks.

An investment for about ten years in Daimler-Benz shares would have resulted in an average annual return of 13.1% for a shareholder; for a five-year investment the return would have been 25.2% p. a. These calculations are based on the assumption that the proceeds from subscription rights and dividends (without tax credit) were consistently reinvested in Daimler-Benz shares.

Investor Relations Intensified

We responded in 1997 to the increasing need for information in the international financial markets by continuing to intensify our contact with investors and financial analysts. As part of this effort, we have begun to involve representatives from operational management more actively in investor relations than before. We presented the Passenger Car Division at the Frankfurt International Motor Show (IAA). To acknowledge the special interest of the financial community in the strategic alignment of the Commercial Vehicle Division we held a separate presentation on this division in Frankfurt. We expanded our regular communication after the annual and semi-annual reports as well as in conjunction with ad-hoc publicity by introducing telephone and video conferences designed to provide explanatory information to analysts and institutional investors. And we were also present in the most important financial markets with our roadshows in 1997. The corporate presentations we held in May 1997 in connection with the issuance of the mandatory convertible bond issue were a key focus.

Upward Trend in the World Economy Continues

We expect moderate growth in the world economy for 1998 and the following years. The upward trend will most likely pick up speed in Western Europe and above all in Germany while the U.S. economy may slow down to some extent. The financial crisis in South East Asia will have a dampening effect on the world economy in general, but will primarily impact the economic development of that region. Japan, too, will only gradually overcome the present phase of stagnation. On the other hand, the Latin American region, China, and, increasingly, certain countries in Eastern Europe could exhibit above-average growth rates.

Expected Growth in Revenues for Daimler-Benz

The high volume of orders on the hand, the favorable development of business in the first three months of the year, and the overall economic environment lead us to believe that our revenues will increase to some DM 134 billion in 1998. By the year 2000 we aim to generate a business volume close to DM 160 billion.

Revenues in Billions of DM	1998 E	2000 E
Daimler-Benz Group	134	158
Passenger Cars	59	69
Unit Sales ('000)	> 850	appr. 1,200
Commercial Vehicles	40	44
Unit Sales ('000)	> 430	appr. 500
Aerospace	16	18
Services	17	24
Directly Managed Businesses	7	9

Stronger Global Alignment

We will focus on enhancing the global alignment of Daimler-Benz in a conscious effort to take better advantage of the potential of promising markets such as Asia and Latin America. In Asia alone, we plan to expand its share of revenues significantly in the next ten years from the present 8%. This effort is supported by a new business structure that involves shifting functions and competencies and subdividing Asia into four separate regions, each of which is headed by a person who is responsible for all of the Group's business in that region.

Value-Based Management and Strengthening Earning Power

The objective of our value-based corporate management is to improve the earning power of Daimler-Benz for the long term and to grow in a profitable manner. Innovative and competitive products will be as effective in contributing to this endeavor as our programs to boost efficiency. On the whole we expect to increase our operating profit yet again in the current year and reach the 12% minimum return on capital employed we are striving for by no later than 1999. We have by now positioned the Group in such a way that even under unfavorable currency conditions we will be able to generate favorable results. However, should the German mark appreciate dramatically with respect to the U.S. dollar or other important currencies, our revenue and income projections would have to be revised. The same would also apply if the growth in the markets that are relevant for us fail to continue in the coming years.

Passenger Cars

The newly industrializing countries in Asia, Latin America, and Eastern Europe will probably exhibit the most rapid growth in terms of volume in the coming years. In the industrialized nations, the growth in passenger car demand will primarily be supported by vehicles such as minivans, off-road vehicles, roadsters, and convertibles. The aim of the Passenger Car Division is to continue to expand the Company's position in the market for luxury cars worldwide and to open up new markets and market segments. We intend to further improve our earnings by the year 2000 and increase our sales volume to more than one million vehicles. Our new products such as the M-Class, the A-Class, and the Smart will be instrumental in this effort. The new S-Class will reinforce our leading position in the high-end market segment.

Commercial Vehicles

Worldwide demand for commercial vehicles will most likely continue to rise in the coming years. By the year 2000 we expect our sales of commercial vehicles to reach some 500,000 vehicles. In the Trucks Europe business unit the new Atego distributor truck and the heavy-duty Actros should provide for growing sales and higher market shares. We plan to use our van series that are so successful in Europe to focus more intensively on penetrating selected markets in Latin America and Asia. In North America, the heavy-duty truck segment we took over from Ford represents additional sales potentials; we will be marketing these trucks under the Sterling nameplate. The earnings of the Commercial Vehicle Division will continue to rise thanks to the cost reduction programs already implemented, the increasing interlinkage of our international activities, and the improved cost position of our vehicles and components.

Aerospace

The prospects of the Aerospace Division are determined by the rapidly rising volume of orders on hand in civil aircraft and helicopters and by the tight budgets of government agencies.

Due to the high volume of orders on hand, we expect production in the Airbus program to increase from 184 aircraft in 1997 to more than 280 in 1999. The Aeroengines business unit is also profiting from the high demand for civil aircraft. In contrast, the growth potentials of Space Systems, Military Aircraft, and Defense Technology are rather restricted since these units are largely dependent on public spending. On the whole, we anticipate that the division's earnings will continue to increase.

Services

Daimler-Benz will concentrate on further expanding its range of services and on opening up additional markets, above all from a regional perspective. This will create the basis for above-average growth rates and increasing earnings to continue. The Financial Services/Insurance Brokerage and Trading business units will support the growth of the Group's industrial business with innovative financing concepts. Since withdrawing from Cap Gemini, the activities of the IT Services unit have been centered around reinforcing the Company's position as a full-service provider in information technology both inside and outside Germany. In the Telecommunications and Media Services unit, the entry into the fixed network services is connected with tremendous growth opportunities.

Investments in Property, Plant and Equipment

in Billions of DM	*1998 E*	1998-2000
Daimler-Benz Group	*8.3*	22.1
Passenger Cars	*3.5*	9.4
Commercial Vehicles	*1.4*	4.0
Vehicle Sales Organization	*0.8*	2.5
Aerospace	*0.8*	2.1
Services	*0.4*	1.2
Directly Managed Businesses	*0.5*	1.3

Research & Development*)

in Billions of DM	*1998 E*	1998-2000
Daimler-Benz Group	*6.5*	19.3
Passenger Cars	*3.3*	9.6
Commercial Vehicles	*1.3*	4.0
Aerospace	*0.8*	2.8
Directly Managed Businesses	*0.7*	2.1

*) Excluding third-party contracts.

Directly Managed Businesses

After making adjustments for changes in the consolidated group we also expect to generate rising revenues and income in the directly managed businesses.

The emphasis of growth in the rail systems joint venture Adtranz is on signaling systems, customer service and technical support for rail systems, and innovative freight transport solutions. The largest proportion of revenues, though, will still be contributed by rolling stock. In order to counter the deteriorating prices in this market and improve the earnings position of Adtranz, we are speeding up the implementation of the restructuring programs already initiated.

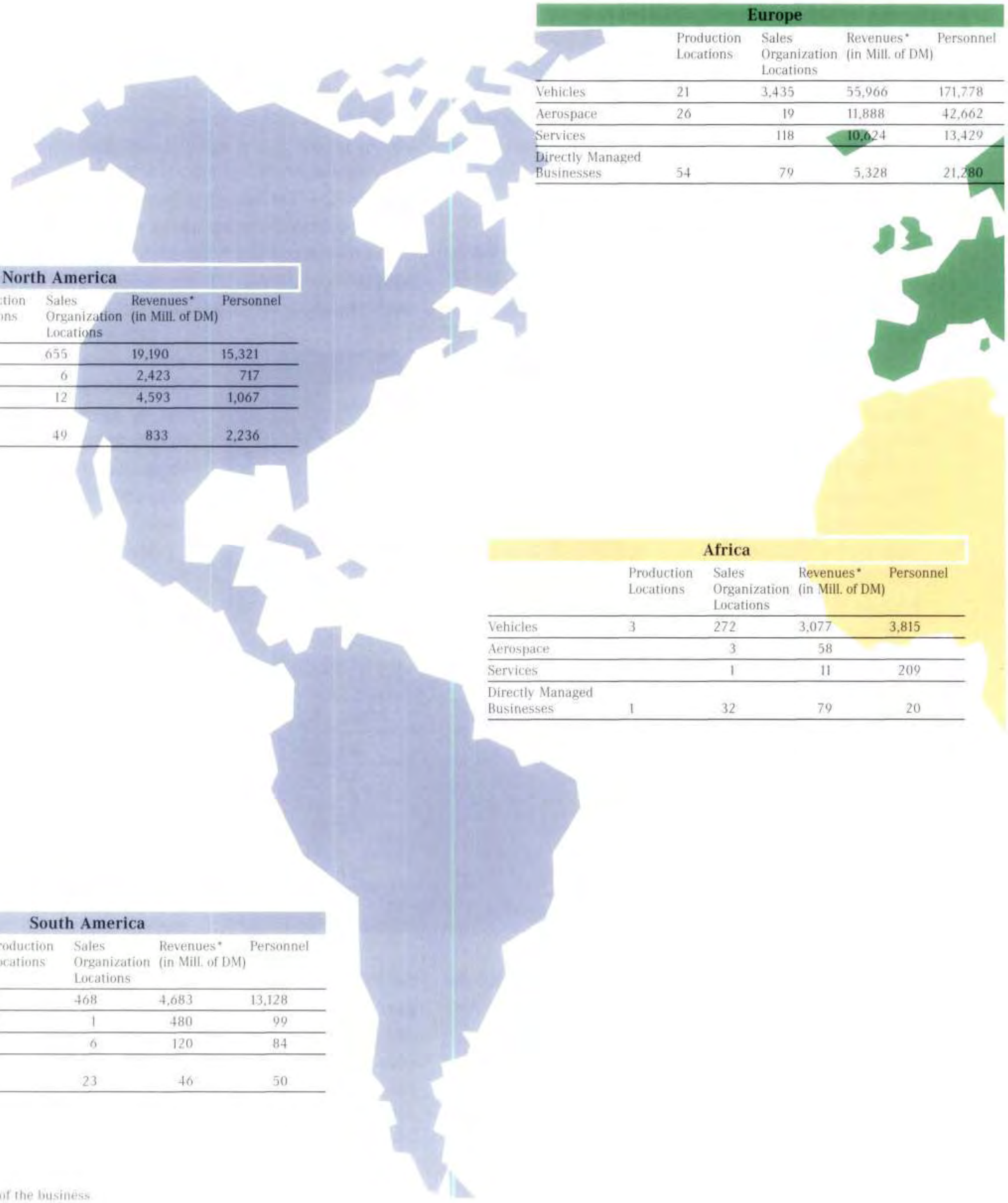
Following the sale of the semiconductor business, the Microelectronics unit will focus on automotive electronics in the future. The continued expansion of this business is supported by new products above all.

The MTU/Diesel Engines business unit is expecting the bulk of further growth to come from commercial applications. The new 2000 and 4000 series will contribute to this development; both were greeted with widespread customer interest in 1997.

Investments in the Future

Daimler-Benz will expend more than DM 40 billion in the budget period from 1998 to 2000, or some DM 14 billion each year, on research and development and on property, plant, and equipment. Significant investment projects include product startups in the Passenger Car Division, the development of the vehicle sales network in Asia, and the expansion of the aeroengines maintenance business. Special emphasis in research and development was put on new passenger car models and development projects related to the Airbus A340-500/600 series.

Daimler-Benz Worldwide



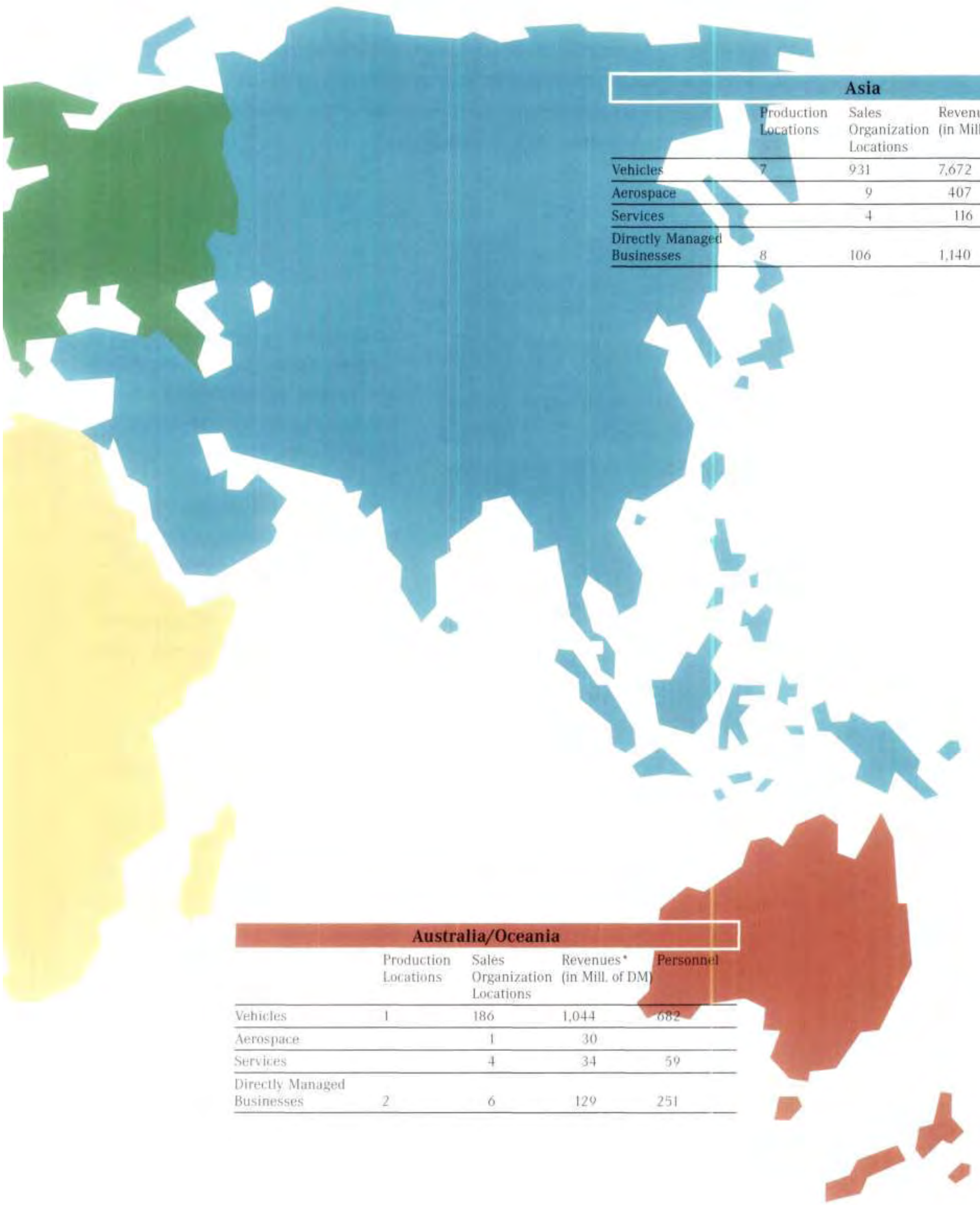
Europe	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	21	3,435	55,966	171,778
Aerospace	26	19	11,888	42,662
Services		118	10,624	13,429
Directly Managed Businesses	54	79	5,328	21,280

North America	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	10	655	19,190	15,321
Aerospace	2	6	2,423	717
Services		12	4,593	1,067
Directly Managed Businesses	7	49	833	2,236

Africa	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	3	272	3,077	3,815
Aerospace		3	58	
Services		1	11	209
Directly Managed Businesses	1	32	79	20

South America	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	4	468	4,683	13,128
Aerospace	1	1	480	99
Services		6	120	84
Directly Managed Businesses		23	46	50

* Unconsolidated figures of the business



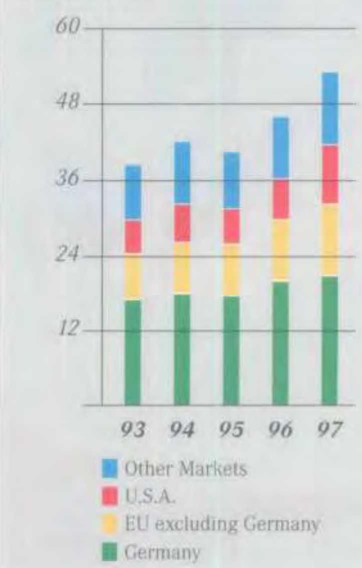
Asia	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	7	931	7,672	2,618
Aerospace		9	407	43
Services		4	116	50
Directly Managed Businesses	8	106	1,140	4,378

Australia/Oceania	Production Locations	Sales Organization Locations	Revenues* (in Mill. of DM)	Personnel
Vehicles	1	186	1,044	682
Aerospace		1	30	
Services		4	34	59
Directly Managed Businesses	2	6	129	251

The Passenger Car Division was once again very successful in 1997: we achieved record highs in revenue, sales, and production. Attractive new products such as the A-Class, M-Class, and CLK also helped us to secure additional market segments for the Mercedes-Benz brand, and we were able to strengthen our position of technological leadership by various innovations. Despite substantial investments made in connection with our product drive, the contribution of the passenger car business to the operating profit of the Daimler-Benz Group slightly exceeded the high level of the previous year.

In Millions of DM	1997	1996
Operating Profit	3,132	3,090
Revenues	53,892	46,652
Investm. in Property, Plant and Equipment	3,687	2,893
R&D	3,097	2,906
Production (Units)	726,686	645,156
Sales (Units)	715,055	644,957
Employees (12/31)	91,753	83,732

Revenues by Regions
In Billions of DM



Upward Trend in Worldwide Passenger Car Demand

Total passenger car demand continued to increase worldwide in 1997, but somehow less strongly than in the previous year.

Growth focused on a number of Western European countries, while the passenger car market softened in the USA, Japan, and most countries in Southeast Asia.

In Western Europe new vehicle registrations increased by 5% to 13.4 million passenger cars. Due to government intervention, however, trends varied widely from market to market. For instance, as a result of the phaseout of the scrapping premium in France the market declined by 20%. In contrast, government buying incentives in Italy and Spain led to a vigorous increase in new registrations of 39% and 11% respectively.

In Germany, numerous new models meant that after the first six months weakness, 3.5 million new registrations slightly exceeded the previous year's level.

While total passenger car sales in the USA were lower in 1997, despite favorable overall economic conditions, sales of off-road vehicles, minivans, and pickups, which in the USA are considered commercial vehicles, increased significantly.

In Japan a depressed economy and higher value-added taxes reduced new vehicle registrations to 4.5 million passenger cars (1996: 4.7 million units). Luxury cars were specially hard hit by the weak market.

In 1997 worldwide passenger car production rose by 5% to 38.8 million vehicles. As a result of numerous new models in all market segments and growing production capacities, competition intensified downward price pressure.

Passenger Car Division: Revenue and Production at an Ail-Time Highs

Thanks to the success of our new passenger car models Daimler-Benz enjoyed a better year than industry average. The Passenger Car Division's revenue reached DM 53.9 billion in 1997 (1996: DM 46.7 billion), an all-time height. Revenues increased most noticeably in the USA, where they rose by nearly 47% to DM 9.4 billion. Aside from strong demand for our new models, an important contributor was the upward valuation of the U.S. dollar against the German mark. There was also vigorous growth in Western Europe ex-Germany (+18% to DM 12.5 billion) and Japan (+10% to DM 3.3 billion). In Germany, sales volume totaled DM 21.7 billion, surpassing the previous year's level by 4%.

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By selling 715,100 passenger cars and off-road vehicles in 1997 (1996: 645,000 units), we achieved the largest sales volume in the Company's history. At the same time, production set a new record of 726,700 passenger cars (1996: 645,200 units).

Operating Profit Increased to DM 3.1 Billion

Despite large investments made in the development, production, and marketing of our new A-Class, M-Class, and smart models, the contribution of the Passenger Car Division to the operating profit of Daimler-Benz totaled DM 3.1 billion, and thus slightly exceeded the high level of the previous year. This was due primarily to the market success of our vehicles, helped by the programs to boost productivity and favorable exchange rates.

Market Position Improved Worldwide

We were able to increase sales of Mercedes-Benz passenger cars significantly in nearly all important markets and thus enhance our position worldwide in the upper market segment. Interest in our new models was especially lively. Examples: we sold 46,600 SLK roadsters in the model's first full production year. With sales of 56,500 and 38,300 units respectively, the C- and E-Class wagons were also highly successful. We sold 22,000 units of the new CLK coupe, which was introduced in June 1997. The M-Class, which has been delivered to customers in the USA since September 1997, contributed 16,300 vehicles to the Group's sales.

Passenger Car Sales 1997

	Units ('000)	97:96 (in %)
World	715	+ 11
of which A-Class	7	+ .
C-Class	349	+ 24
of which CLK	22	+ .
SLK	47	+ .
E-Class	277	− 5
S-/SL-Class	63	− 8
M-Class	16	+ .
G-Class	3	− 23
Europe	477	+ 8
Western Europe (excl. Germany)	194	+ 11
Benelux	26	+ 2
Germany	277	+ 5
France	27	− 2
United Kingdom	44	+ 18
Italy	44	+ 18
Scandinavia	14	+ 29
Spain	12	+ 16
North America	130	+ 40
USA (retail sales)	122	+ 35
Latin America	7	+ 11
Far East (excl. Japan)	28	− 7
Japan (new registrations)	42	+ 2
Middle East	9	+ 1
Republic of South Africa	12	− 18

In Germany, unit sales of Mercedes-Benz vehicles totaled 276,500 passenger cars and were 5% higher than in 1996. The market share of Daimler-Benz rose to 8.5% (1996: 8.2%). We also managed to expand our position in the upper market segment.

Mercedes-Benz was also successful in Western Europe outside Germany. We sold a total 193,600 passenger cars in that region, and were able to exceed the high sales volume of 1996 by 11%. We achieved double-digit growth in each of the volume markets U.K., Italy, and Spain. However, due to the weak passeger car market, sales in France did not reach the high level of the previous year.

Our passenger car business performed well in Eastern Europe, especially in the CIS countries.

Significant Growth in Overseas Markets

Overseas markets also contributed to growth in 1997. In the declining USA market we sold more than 100,000 vehicles for the first time. Total sales rose by 35% to 122,300 vehicles. In addition to the SLK roadster and the CLK coupe, the new M-Class contributed significantly to the growth achieved. The M-Class successfully positioned us in the extremely attractive market for all-wheel-drive sport utility vehicles.

In Japan, too, business developed favorably for us despite the difficult overall market situation. A total of 41,900 new Mercedes-Benz vehicles were registered there in 1997, surpassing the high level of the previous year by 2%. Our share of the luxury class market increased nearly 2% to more than 13%.

Furthermore, we achieved growth in sales in the markets of Latin America, China, the Middle East, and Australia. In some Far East countries, on the other hand, we faced setbacks because financial crises adversely affected sales of higher-end passenger cars.

A-Class Moving Ahead at High Speed

In February 1998 we started delivering the A-Class to customers again with a new chassis configuration shortly after its market introduction in October 1997. This model made headlines in connection with the so-called "moose test".

In November 1997 we had decided to suspend delivery because we only want to supply cars that even in extreme tests meet the highest safety standards. Once we decided to modify the chassis, we chose to suspend delivery so that all vehicles delivered to customers would be properly equipped from that point forward and so that we could introduce the modifications to production early on. The A-Class models already produced were retrofitted at specially equipped service centers.

Independent experts confirm that with the new chassis configuration the A-Class car handles extreme situations such as the "moose test" with flying colors. In addition, the Electronic Stability Program (ESP) is standard since February. With the ESP, we are setting a new safety standard in this market segment.

Further, in terms of versatility and optimum use of space, the A-Class offers features that were not possible with passenger cars of this size in the past. The fact that it was awarded the Golden Steering Wheel in November 1997 confirms the trendsetting concept of the vehicle. The number of orders, which by March 1998 totaled well over 120,000 vehicles, demonstrates that the innovative A-Class concept has caught on with customers. Production of the A-Class in Rastatt has been proceeding since February 1998 and to work at full capacity is focused for July. In 1998 we plan to produce about 150,000 vehicles.

The CLK convertible lets four people share the joy of top-down driving. The most important features of the new convertible are the coupe-like styling of its bodywork coupled with the spaciousness and safety of a Mercedes-Benz sedan.

CLK: Available as a Convertible in 1998

We launched the sporty and elegant CLK coupe in June 1997. We have also developed an attractive convertible version, that we introduced to the public at the Geneva Car Show in March 1998. Aside from its innovative design, the convertible is distinguished by generous interior space and four full-size seats. Its semi-automatic top can be opened and closed with ease. The CLK convertible will be available in Europe in June 1998 and in the USA and Japan in the fall of 1998.

M-Class: Mercedes-Benz Quality from Alabama

The M-Class is making an important contribution to the expansion of our international activities in the passenger car sector. Thanks to this new off-road vehicle built in Tuscaloosa, Alabama, we are now represented with a locally produced model in the USA, the world's largest passenger car market.

In addition to its persuasive price/performance ratio and exemplary safety features, this innovative vehicle offers a future-oriented design, exceptional off-road mobility and sedan-type on-road qualities.

We launched the M-Class in North America in September and by the end of 1997 had sold 16,300 vehicles. Strong demand and its distinction as the Off-Road Vehicle of the Year 1998 are a convincing evidence of the attraction of the M-Class concept.

The M-Class unites exceptional off-road qualities with sedan-like handling.

Since spring 1998, the M-Class has also been available in Europe and other markets. Due to strong demand in the USA, as of 1999 we will boost production capacity from the originally planned 65,000 units to 80,000 units.

World Premiere of the Smart at the IAA

The smart city coupe was unveiled at the IAA in Frankfurt.

It is an entirely new type of vehicle; a mere 2.50 meters long, it weighs only 680 kilograms. Two adults have as much room in its one-box body as in a conventional mid-sized car. The subcompact city coupe creates a wholly new vehicle class and at the same time sets high standards in terms of safety and comfort. As a new mobility concept, the smart will help to overcome traffic problems in crowded urban environments.

The Smart-Plus assembly plant in Hambach, France is the hub of a novel production process. The system partners deliver directly to the assembly line, where pre-assembled modules are incorporated. Only some 4.5 hours are required for the final assembly of the smart; the vertical integration of the smart manufacturing venture is less than ten percent.

A total of about 110 Smart centers are being established in urban areas throughout Europe, all of them favorably located for traffic.

We want to deliver superior and fully-developed products in every respect. Vehicle and factory organization and coordination with systems suppliers still need more time to mature. We have therefore postponed the market introduction, originally planned for spring 1998, to October 1998.

Assembly Plant for the A-Class in Brazil

Daimler-Benz will soon begin producing the A-Class for the Mercosur economic area in Juiz de Fora, some 250 kilometers north of Rio de Janeiro. Series production will most likely start in late 1998 for the market introduction in spring 1999. Annual production of 70,000 vehicles is planned in the medium term. This project will expand our presence in Latin America, a market that offers enormous potential for Mercedes-Benz passenger cars.

New Diesel Era with Common Rail Technology

In December 1997 Mercedes-Benz opened a new era in diesel technology with the C 220 CDI. This innovative technology makes considerable advances possible in performance, fuel consumption, and noise suppression, making driving even more enjoyable. Common rail injection is also suited to large passenger car engines. This has been confirmed by studies on the recently developed 8-cylinder diesel engine that Daimler-Benz presented at the 1AA in 1997. (See page 48.)

Among the innovations in drive technology are the V6/ V8 double-spark ignition engines with three-valve technology, that we introduced in 1997 and that were well received by the market.

An intelligent all-wheel-drive system was developed for the E 280 and E 320 models.

Mercedes-Benz Maybach Unveiled in Tokyo

At the Tokyo Motor Show in October 1997 Daimler-Benz unveiled a design study for the Mercedes-Benz Maybach. Named after the German design engineer Wilhelm Maybach, this vehicle is not only remarkable for its advanced design and technology, it is also a prototype of the exclusive luxury car of the future.

The Mercedes-Benz Maybach is driven by a high-torque V12 engine of magnesium aluminum construction with approximately six liters displacement and combines maximum comfort with state-of-the-art technology.

The design of the Mercedes-Benz Maybach was developed at the Japanese design center of Daimler-Benz.

The smart redefines functionality, comfort, and safety for driving in urban environments.

The year 1997 was our most successful season ever in motorsports.

Expansion of Our Presence in Asia

As part of our globalization strategy we plan to expand our presence in the Asia Pacific region, an area that offers encouraging growth prospects in the midrange future.

Our passenger car assembly plants in Malaysia, Indonesia, India, Thailand, Singapore, Pakistan, Vietnam, and the Philippines will play a key role in this effort.

We made progress in India in particular in the year under review. We took over the management of sales activities and restructured them throughout the country. Moreover, we started manufacturing the latest E-Class at MB India. By doing so we are investing in a promising future market.

A Successful Year in Motorsports

1997 was the most successful motorsports year in recent history for Daimler-Benz; we had 18 victories at 45 races and in three racing series.

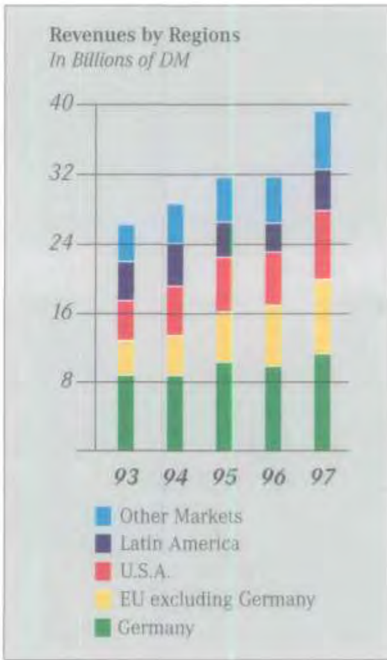
In Formula One, the McLaren Mercedes Silver Arrows scored three victories, including the first double victory in 42 years at the season finale in lerez.

In the CART Series, our partner Penske and the customer teams PacWest and Forsythe won nine out of 17 races, making Mercedes-Benz the 1997 CART Manufacturers' Champion.

We were also very successful at the FIA GT, a championship that was held for the first time. Bernd Schneider took the Drivers Championship at the first go with the new Mercedes CLK-GTR, while our partner AMG won the Team Championship.

In 1997 the Commercial Vehicle Division achieved a turnaround, thanks to successful new products and extensive efforts to boost productivity; it contributed DM 481 million to the operating profit of the Daimler-Benz Group. We recorded record highs in sales, revenues, and production. The acquisition of the heavy truck sector from Ford Motor Co., which in future will be marketed under the new Sterling trademark, will expand our position in the NAFTA region.

In Millions of DM	*1997*	1996
Operating Profit	*481*	(354)
Revenues	*39,140*	32,152
Investm. in Property, Plant and Equipment	*1,175*	1,558
R&D	*1,177*	1,090
Production (Units)	*422,438*	340,736
Sales (Units)	*417,384*	348,087
Employees (12/31)	*85,071*	80,483



Market Growth in Western Europe Confined to Light Commercial Vehicles

The Western European commercial vehicle market showed an increase in 1997, but development of the individual market segments was countercyclical. While new registrations of vans under 6 tons rose by 8% to 1.5 million vehicles, a slight decline to 246,800 vehicles was recorded in the market segment for trucks over 6 tons. New registrations of buses, at 28,000 units, nearly reached the same level as the previous year.

After a weak year of 1996 the market situation in Germany improved somewhat; 263,900 new commercial vehicles were registered (+6%). But because the investment climate is still unsettled and the construction market is soft, growth in the sector for trucks over 6 tons, at 3% to 69,400 vehicles, was still negligible. However, new registrations of vans under 6 tons rose by 8% to 189,000 vehicles, which above all reflects brisk demand in the service industry.

Favorable Development of Overseas Markets

After a temporary slowdown in 1996, the U.S. market for heavy trucks in Classes 6 to 8 (over 8.8 tons) gained speed again during the year. Growth in orders was especially robust, and with 310,400 trucks sold, sales were gratifying as well, surpassing the 1996 level by 6% due to a strong second half of the year.

As a result of Latin Americas economic upturn, demand for commercial vehicles grew significantly in 1997. The market situation improved in Mexico and Brazil above all, while sales in Argentina did not reach the high volume of the previous year.

The downward trend in the Japanese commercial vehicle market intensified in the year under review. Although growth in China continued its dynamic course, certain markets in Southeast Asia were not able to continue the vigorous upward trend of the past years.

Dynamic Growth at Daimler-Benz

The Commercial Vehicle Division at Daimler-Benz increased its revenues by 22% in 1997, reaching a new all-time high of DM 39.1 billion. We achieved brisk growth in the USA (+28% to DM 7.9 billion) and Latin America (+41% to DM 4.7 billion). In Western Europe outside Germany our revenues increased by 21% to DM 9.3 billion. In Germany our business volume rose to DM 11.1 billion (+7%).

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Altogether we sold 417,400 commercial vehicles in 1997, and thus once again outnumbered the high level of the previous year (+20%). The growth was supported by all business units. The development of sales was especially encouraging in the vans segment and - contrary to the market trend - in heavy trucks in Europe. The Sprinter van was especially instrumental in the remarkable growth achieved in Latin America; since late 1996 we have been also producing this vehicle in Argentina.

Worldwide Daimler-Benz produced 195,300 vans (+28%), 181,800 trucks (+20%), 32,500 buses (+25%), and 3,000 Unimogs (+6%) in 1997. In addition, we produced 9,800 motor home chassis and walk-in vans at Freightliner. Total production increased by 24% to 422,400 commercial vehicles.

Commercial Vehicle Sales 1997

	Units ('000)	97:96 (in %)
World	417	+ 20
of which Vans	194	+ 27
Trucks*)	189	+ 14
Buses	31	+ 18
Unimog	3	+ 12
Europe	256	+ 22
Western Europe (excl. Germany)	132	+ 21
Benelux	27	+ 31
Germany	97	+ 12
France	22	− 3
United Kingdom	26	+ 38
Italy	15	+ 21
East and South East Europe	28	+ 93
Scandinavia	12	+ 15
Spain	14	+ 29
North America	80	+ 7
USA	72	+ 4
Mexico	6	+ 180
Argentina	9	+ 30
Brazil	38	+ 17

*) Including 9,800 motor home chassis and walk-in vans of Freightliner.

Earnings Clearly Profitable

The contribution of the Commercial Vehicle Division to the operating profit of Daimler-Benz rose to DM 481 million. Most important sources of income were the Vans Europe unit and the commercial vehicle business in North and Latin America. But the other business units also noticeably strengthened their earning power. Our new products were especially conducive to this development; they can be more cost-effectively produced across the board than their predecessors and are characterized by streamlined production processes and optimized vertical integration. On the basis of union shop agreements to secure jobs that we concluded with the employee representatives in our German plants, we will realize a savings volume of several hundred million German marks. Due to these agreements it is now possible to use our production facilities more efficiently and to adjust working times more flexibly to fluctuations in demand which are common in the commercial vehicle industry.

Vans Europe Unit Still Very Successful

The Vito (2.6 tons), Sprinter (2.5 to 4.6 tons), and Vario (4.8 to 7.5 tons) models and the V-Class minivans were introduced in 1995 and 1996; these new and extremely competitive products made it possible for the Vans Europe business unit to grow significantly faster than the market. The unit was able to boost its sales by 21% to 182,000 vehicles in the year under review. Aside from the continued success of the Sprinter vans, of which we sold 106,200 units (1996: 103,600 units), the Vito and the V-Class, produced at the plant in Vitoria, Spain on the basis of a shared platform, were able to fully establish themselves in the market in 1997 with 65,800 vehicles sold (1996: 32,000).

Our market share of vans from 2 to 6 tons reached 18.3% in Western Europe including the V-Class (1996: 15.6%); we thus took over the leading position for the first time. In Germany, our market share rose to 26.4% (1996: 24.8%). In overseas markets, above all in South Africa and the Near and Far East, 5,200 vans were sold in 1997. The results of the Van of the Year 1997 awards underscore the excellent acceptance of our vans. In their respective segments, the Vario took the 3rd place, the Vito the 2nd place, while the Sprinter scored 1 st place with the best individual results within all classes.

New Products for the Trucks Europe Unit

The Trucks Europe business unit completed its product range for the heavy-duty Actros truck by adding construction and special application vehicles in September 1997. We first launched the Actros as a road version in September 1996; it was appointed Truck of the Year 1997.

We introduced the new Atego distributor truck to the market in spring 1998.

As with the Actros, the Atego's most convincing feature is its economic efficiency. Essential criteria include 60,000 kilometer service intervals for city driving and 100,000 kilometers for highway driving. The service costs are thus reduced by up to 30% as compared to the predecessor models.

In addition, more production-friendly product concepts and tighter production processes lead to considerable cost advantages both for the Actros and the Atego.

Due to the market success of the Actros, the Trucks Europe business unit has increased its sales by 18% to a total of 77,500 vehicles despite the unfavorable development of important markets. We were able to expand our position as market leader in Western Europe to a 24.6% share in the market for trucks over 6 tons.

Within the Trucks Europe production network, which in addition to the production facility in Worth also includes the plants in Aksaray, Turkey, Arbon, Switzerland (added equipment), and Molsheim, France (retrofitting), a total of 78,800 trucks rolled off the assembly line in 1997 (1996: 62,600 units).

Unimog Sales Up

Despite strained budget situations in the public sector in Germany and the other Western European countries, sales of the Unimog business unit reached 3,100 vehicles and were 12% higher than in the previous year. The new compact tool carrier UX 100, which we have been offering since 1996, was instrumental in this pleasing development.

Drive Trains Unit: An Internationally Competitive System Partner

The Drive Trains Europe unit develops and manufactures engines, axles, and powertrains, as well as other components for commercial vehicles. So far these products were primarily manufactured for European assembly plants of the Commercial Vehicle Division. We also plan to acquire more external customers in the future in order to take advantage of additional economies of scale.

Against this backdrop, we intensified efforts in 1997 on significant improvements of the unit's cost position, which was not yet satisfactory.

Citaro, the new generation Mercedes-Benz city bus, will change the shape of public transportation around the world.

The Citaro stands for economy, safety, comfort, and innovation.

In revamping the product line, components for the Atego were given the most attention. For instance, we developed a new 6-cylinder version of the 900 engine series and a power-train series that satisfies different torque requirements. With its direct-drive system, the new rear axle of the Series 8 makes an important contribution toward reducing fuel consumption for the Actros and various buses produced by Evo-Bus GmbH.

In its function as an internal system partner, the unit delivered components valued at DM 5.3 billion to customers within the Daimler-Benz Group in 1997. Revenues from external customers totaled some DM 0.5 billion.

In the future, we intend to take greater advantage of our international development and production network for components from the Commercial Vehicle Division. Moreover, we are continuing to expand our sales and after sales service networks.

Revenues by Business Units

In Millions of DM	1997	1996
Commercial Vehicles division	*39,140*	32,152
Trucks Europe	*10,897*	8,953
Commercial Vehicles NAFTA	*9,710*	7,086
Vans Europe	*8,674*	6,860
Drive Trains Europe	*5,761*	4,911
Buses Europe	*3,776*	3,585
C. V. Latin America	*4,384*	3,349
Unimog	*625*	557

EvoBus Reinforces Its Market Position

While the Western European market for buses over 8 tons remained nearly constant in 1997 with a total of 20,600 new registrations (1996: 20,700 registrations), the number of new registrations in the German market, which is especially significant for EvoBus, declined by 8% to 4,800 vehicles.

In this environment, the Buses Europe unit increased its sales by 8% to 7,900 buses. The total sales volume includes 4,500 buses of the Mercedes-Benz trademark, 2,300 Setra buses, and 1,100 bus chassis. In Western Europe, the market shares of Mercedes-Benz and Setra, at 15% and 10% respectively, were approximately equal to the previous year. In Germany, the Buses Europe unit produced 5,500 buses and bus chassis (1996: 4,800 units); 430 buses were assembled in France (1996: 460 units) and 2,300 city and tour buses at the Davutpasa/Hosdere plant in Turkey (1996: 1,700 units).

Here, too, the product strategy is proceeding at full speed: among the product innovations in 1997 are the Citaro city bus, the Integra (a high-floor bus with the Mercedes-Benz nameplate), and a 3-axle luxury tour bus of the Setra make. As the first manufacturer worldwide, EvoBus launched the NEBUS, an emission-free city bus using fuel-cell technology, in 1997. On the basis of standardized bus platforms and a modular product concept for buses of Mercedes-Benz and Setra, the Buses Europe business unit will have revamped its entire product line by the year 2000.

Continuous Growth in the NAFTA Region

In the financial year 1997, the Freightliner Corporation sold a total of 80,200 commercial vehicles in North America (1996: 74,900 units), and thus continued to improve its market position. Aside from the success of our vehicles, contributing factors included the unrivaled service package offered by Freightliner. The business with medium-duty trucks in Classes 6 and 7 remained favorable; sales in this category grew to a total of 11,400 vehicles (1996: 10,800 units). In Class 8 trucks (over 15 tons), we achieved a 6% increase to 57,200 units, above all due to brisk demand for the new generation of Century Class Trucks.

In the USA Freightliner reinforced its position as the leading manufacturer of heavy-duty trucks by selling a total of 70,500 commercial vehicles (1996: 69,300 units); its market share is 12% in the Classes 6 and 7 and 28% in Class 8.

Mercedes-Benz Mexico S.A., which like Freightliner is part of the Commercial Vehicles NAFTA unit, profited from the improved situation of the local market and nearly quadrupled its production to 6,400 commercial vehicles.

Sterling as a Second Mainstay in North America

With the takeover of the heavy trucks sector of Ford Motor Co. effective January 1, 1998, we are strengthening our position in the NAFTA region. The product range of this sector, which in future will be marketed under the Sterling trademark via an independent network of more than 200 dealers in the USA and Canada, consists of vehicles in Classes 6 to 8 for distributor, construction-site, and long-haul applications. It perfectly complements the product range of Freightliner. With the Sterling as a second trademark, Freightliner intends to achieve an additional sales volume of 20,000 units and expand its market share in the segment of Class 8 trucks in the USA to nearly 40%. The Sterling trucks will be manufactured at the Freightliner production facility in St. Thomas, Ontario, Canada.

The Vito F: An ideal partner for family and leisure.

The Sterling: Our second trademark in North America

Sprinter Spurs Growth in Latin America

In order to consolidate our activities in Brazil and Argentina and thus organize them more efficiently, we created the business unit Commercial Vehicles Latin America at the beginning of the year under review.

The sales volume of this sector grew by 23% in 1997 to 56,300 vehicles. Of this total, 3,100 vehicles were Sprinter vans, which since the end of 1996 have been produced at our Argentine plant for the Latin American market. Because the rapidly rising demand for commercial vehicles could not be fully satisfied due to limited capacities, our market shares in the category of trucks over 6 tons declined slightly. However, with a 34% share (1996: 39%) in Brazil and 44% (1996: 46%) in Argentina, we were able to maintain our leading position in this market segment by far. In the bus sector, our share in the Brazilian market was somewhat lower than in the previous year at 63%. The product range of the business unit was expanded in 1997 with another heavy truck, a bus chassis with a natural gas engine, and a low-floor bus.

Custom-Made Products for the Asian Market

The Asia Pacific region is already the largest commercial vehicle market today and in the coming years will also enjoy the most extensive growth. In order to expand our position in this region we will offer more locally produced and developed products there in future that are adapted to the specific requirements of these markets.

Such products include the new MB 800, which we have been producing in Indonesia since 1997 and which was developed locally.

A key project in China is Yaxing-Benz Ltd., our 50/50 joint venture with Yangzhou Motor Coach Manufacturer General (YMCG) that started operation in March 1997. Some 3,300 employees produce and sell buses and chassis for the Yaxing and Mercedes-Benz makes there as part of a double-nameplate strategy. Our long-range plan is to achieve a leading position in the Chinese market with this company.

In 1997, we restructured our sales organization both inside and outside of Germany striving to improve efficiency and customer orientation. In addition, we set conditions for a much more conscientious management of the Mercedes-Benz brand. The MB Spots we introduced in Italy and the A-Motion Tour open new opportunities for customer contact. It is our aim to obtain world leadership not only within our products, but also within our services and all aspects of customer care.

Restructuring the Sales Organization

In the year under review, we aligned our sales organization even closer to the needs of our customers. We developed a new structure for our sales network in Germany thereby taking the geographic differences and required minimum volumes of our sales partners into consideration and ensuring optimum customer care. We have already started implementing this structure with our partners in the interest of helping them to build the strength and professionalism they need to compete in the market. We have also introduced similar reorganization structures to our sales network in Europe outside Germany.

Outside Europe we are strategically expanding our market presence with additional regional companies and sales points. In Guatemala, for instance, we took over the majority holding and corporate management of our general representative, Europa Motors. Mercedes-Benz Latina, servicing the Central American region, will start operations in 1998, and regional offices will open in Dubai and South Africa.

The sales organization in Asia was also restructured. From now on, these markets will be serviced directly on location by four newly established market performance centers. Enhanced customer orientation and flexibility we achieved are important conditions for more effectively exploiting market opportunities in Asia in future.

Brand Management in Sales

The distinctive Mercedes-Benz star, long considered a symbol for one of the world's strongest trademarks, may well be the most important asset Daimler-Benz has in competing for customers. We therefore established the new Brand Management unit in order to consolidate activities revolving around the Mercedes-Benz brand. The new unit's task is to develop strategies and standards from a brand perspective for the gamut of activities ranging from vehicle development to sales and promotion. The spectrum spans from positioning our vehicles in the market to marketing merchandising products under the Mercedes-Benz name and establishing guidelines for cooperative ventures.

A-Motion Tour

The A-Motion Tour introduced in 1997 represents a creative new approach to initiating a dialogue with our customers, communicating Mercedes-Benz brand awareness, and presenting the A-Class as a wholly new vehicle. The A-Motion Tour was part of the 18-month publicity campaign leading up to the market introduction of the A-Class; it homed in on the centers of the most important cities of Germany and Europe. With this innovative form of communication we have been able to appeal to new customers for Mercedes-Benz and the A-Class throughout Europe.

Present-Valued Parts Supply

Customer and market needs are changing in the parts business as well. In order to strengthen our competitive position in the parts market, we started implementing marketing concepts in 1997 that pay special attention to the needs of our individual customer groups. An example is our commitment to make expendable parts available at prices that are based on the present value of the vehicles. This not only increases customer loyalty and satisfaction, it also creates conditions for continued customer acquisition.

Star Diagnosis at Service Centers

Our service centers provide valuable opportunities for establishing long-term customer loyalty. They can be a decisive factor in setting us apart from the competition and in expanding our market position. The recently introduced Star Diagnosis System enables Mercedes-Benz service centers to precisely locate malfunctions and to undertake appropriate repairs.

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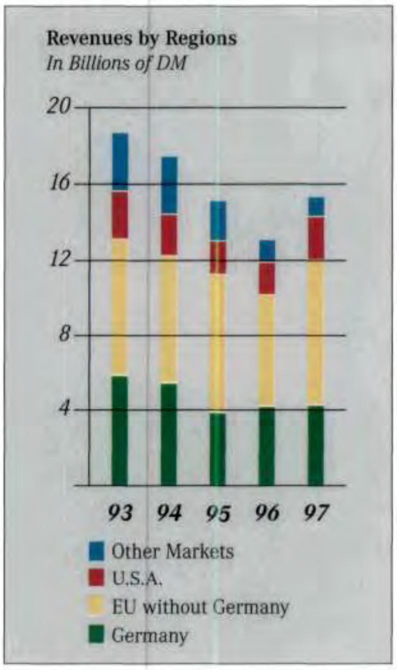
Together with the recovery of important markets, programs for boosting efficiency introduced and successfully implemented in previous years have noticeably improved the competitiveness and earnings of the Aerospace Division. At DM 432 million profit (1996: DM 196 million loss), the division made an important contribution to the operating profit of the Daimler-Benz Group in 1997. At the same time, significant advances were made in the restructuring of the European aerospace industry.

In Millions of DM	1997	1996
Operating Profit	432	(196)
Revenues	15.286	13.053
Investm. in Property, Plant and Equipment	495	584
R&D	4.367	3.681
Employees (12/31)	43.521	44.936



Revival of Demand in Important Markets

Economic conditions for the Aerospace Division developed favorably throughout 1997. Aside from brisk demand for commercial aircraft and helicopters, the upward valuation of the U.S. dollar as compared to the deutschmark was another important factor.

In contrast, restricted public sector budgets had a depressing effect. Defense technology products and the government-supported aerospace industry were especially badly effected. Thanks to the decision of the countries involved to acquire the Eurofighter, it has been possible to secure the continuation of this project, which has tremendous strategic significance for the European aerospace industry.

Due to skyrocketing demand for new telecommunications services, the upward trend in the commercial satellite and service provider markets continued worldwide.

Competitive Pressure Continued

Despite increasing demand in the commercial sector, the aerospace industry remained embroiled in a bitter price war. All manufacturers are therefore still vigorously implementing cost-cutting and rationalization measures. At the same time, the trend towards concentration in the industry reached a new dimension in 1997. In the USA, the merger of Boeing and McDonnell Douglas created a company with a dominant market position, high technological competence, and a balanced portfolio of products and services. Likewise Europe, only an integrated aerospace industry will be capable of surviving over the long term.

Record-Breaking Revenue and Incoming Orders

When comparably calculated, the Aerospace Division was able to increase revenue by 20% to DM 15.3 billion in 1997. All business units generated higher revenues than the previous year. The most important contributions to the division's growth came from the Civil Aircraft and the Aeroengines unit.

At DM 19.4 billion, incoming orders also reached a record level and after making adjustments for structural changes, they surpassed the previous year's level by 16%. Contributing factors included booming orders for Civil Aircraft and Aeroengines, and for the Military Aircraft and Defense and Civil Systems units.

Improved Earning Power

The division's earning power improved steadily. Its contribution to the operating profit of the Daimler-Benz Group increased by DM 628 million to DM 432 million, even though the early repayment of government development grants and

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advances for the Airbus program effected earnings. This increased contribution was above all due to a more favorable dollar exchange rate and to our competitiveness drive, that made it possible to reduce costs by almost 30%. All business units were thus able to generate a profit in fiscal 1997. However, the financial result was negatively influenced by hedging measures, which have a long term effect, when they were evaluated at year-end.

Further Steps Taken Toward European Structures

We reached several other important milestones in 1997 in our effort to promote European cooperation in the aerospace industry.

The French/British joint venture, Matra BAe Dynamics (MBD), acquired 30% of our subsidiary LFK-Lenkflugkorper GmbH, which creates new possibilities for joint strategies in this sector. In the defense electronics field, we acquired Siemens' defense electronics business. This unit's product range complements our existing line, and decisively improves our bargaining position in negotiations toward European cooperative agreements.

In addition, we plan to establish an aerospace joint venture with French/British Matra Marconi Space (MMS). MMS and Dasa intend to contribute their entire space systems activities to this undertaking. Each is expected to hold a 50% stake in the new joint venture.

In October 1997 we agreed with our three consortium partners, Aerospatiale SNI, British Aerospace pic, and Construcciones Aeronauticas S.A. (Casa), on additional steps to convert the Airbus Consortium to a fully integrated European corporation. "Airbus Single Company" is due to be realized by early 1999. Its establishment is an important move to enter the market for widebody jets larger than the A330/A340, a segment previously monopolized by Boeing.

Revenues by Business Units

In Millions of DM	1997	1996
Aerospace division	*15,286*	13,053
Civil Aircraft and Helicopters	*5,970*	4,603
Defense and Civil Systems	*2,841*	2,712
Aeroengines	*2,963*	2,311
Military Aircraft	*1,654*	1,589
Satellites	*1,450*	1,145
Space Systems Infrastructure	*1,105*	1,012

Capacity Expansion in Civil Aircraft

The Civil Aircraft and Helicopters unit essentially comprises our activities within the Airbus Consortium and the Eurocopter Group, in which we hold 37.9% and 40% stakes respectively.

Demand for civil aircraft and helicopters, which had already risen briskly in 1996, led to significantly higher deliveries in 1997. The unit's revenue increased by 30% to DM 6.0 billion. In the civil aircraft sector, in particular, orders were also buoyant. At DM 9.0 billion, incoming orders surpassed the previous year's level by 42%.

The Airbus Consortium was able to book total orders for 460 aircraft in 1997 (1996: 326). That was the most booked in the history of this program. In the year under review 182 aircraft were delivered to customers (1996: 126 units). The volume of orders on hand continued to rise and reached 1,009 aircraft at year-end (1996: 753 units). To ensure our ability to deliver aircraft on time, production is gradually being ramped up, especially in the A319/A320/A321 program. Airbus production was increased to a total of 16 aircraft per month in 1997 and will reach 25 units per month in 1999. Annual production will thus grow by 100 units to more than 280 aircraft.

The Airbus family will become even more attractive for customers in the future. The product range is continually being widened with additional model versions, notably the A321-200 and the A330-200. The decision to develop the four-engine A340-500 and A340-600 jets was finalized in December 1997. The new models will expand the A330/A340 family, which will then cover the range from 250 seats (A330-200) to 380 seats (A340-600).

In the helicopter segment, the revival of civil business made it possible to more than offset the continued decline in revenues from the military sector. Incoming orders were up 13% to DM 1.6 billion.

Eurofighter Enters Production Phase

The Military Aircraft business unit consolidates the Group's capacities and competencies in development, production, and servicing of combat aircraft as well as military transport and mission aircraft. Among the unit's activities are aircraft-supported reconnaissance and guidance systems, primary trainers, and training systems.

About half the unit's revenues, which in 1997 rose by 4% to DM 1.7 billion, was generated by the Tornado and Eurofighter programs and another 20% related to Airbus subassemblies developed and produced on behalf of the Civil Aircraft unit.

Primarily as a result of an order for the modernization of Greece's Phantom aircraft, as well as a significantly larger volume of orders for Airbus subassemblies, the unit's incoming orders rose by a remarkable 70% over the previous year to reach DM 2.0 billion.

Now that the German Bundestag has decided in favor of procuring the Eurofighter and the defense ministries of the nations involved (Germany, U.K., Italy, and Spain) signed a Memorandum of Understanding in December, series production for this program, important for both workforce and systems capabilities of the Military Aircraft unit, has become reality.

Ariane 5 Successfully Started

The Space Systems Infrastructure business unit is responsible for orbital systems and their application as well as for booster and propulsion systems.

Revenues increased by 9% to DM 1.1 billion in 1997. Focal points included our contributions to the Columbus Research Station and Ariane programs.

Incoming orders had been extraordinarily high in 1996 due to the agreement to develop the COF (Columbus Orbital Facility), a contract worth more than one billion German marks. The financial year of 1997 shows that the situation returned to normal and the value of incoming orders was therefore significantly lower at DM 0.8 billion (1996: DM 2.3 billion).

The European booster rocket Ariane completed its one hundredth take-off in September 1997. The second development booster in the Ariane 5 program was successfully

In the important U.S. market, we managed to book the largest single contract in the history of Airbus: In fall 1997 US Airways confirmed an order for 124 A319 and A320 aircraft and options for another 276 units.

launched in October. Europe is the world leader with Ariane 5. It is presently designed for a 5.9 ton payload and will later be expanded to 7.4 tons, that means it will not only be able to transport large satellites into space but other loads, such as the Automated Transfer Vehicle (ATV), as well.

Growth in Revenues in the Satellites Unit

The Satellites business unit develops and produces satellite systems for applications ranging from science and remote sensing to communications and safety policy. These activities are essentially concentrated within our subsidiary Dornier Satellitensysteme GmbH (DSS).

In 1997, the unit's revenues increased by 23% to DM 1.5 billion. The Spacebus and Globalstar programs made significant contributions to earnings, as did the scientific X-ray satellite XMM. At DM 1.1 billion (1996: DM 1.4 billion), incoming orders were significantly lower than in the previous year, which benefited from large orders relating to the Envisat program and the XMM X-ray satellite.

We have entered the highly promising market for small satellites with the newly developed Flexbus concept. In addition, we were able to complete the Saturn probe Huygens in 1997 which was send into space with the American Cassini orbiter.

On the path to series production: The Eurofighter.

Defense and Civil Systems: Competitive Position Strengthened

Though still affected by limited budgets in the public sector in 1997, the Defense and Civil Systems business unit was able to take important steps toward consolidation and preparation for European integration. We have strengthened our position in defense technology through the alliance with Matra-BAe Dynamics in the guided missile sector and the takeover of the defense electronics activities from Siemens. Nortel Dasa Network Systems achieved a decisive market breakthrough in Germany with a large order from Viag Intercom.

Revenues were up 3% in 1997 and reached DM 2.8 billion. A decline in revenues from guided missiles was offset by substantial growth in revenues for Nortel Dasa Network Systems, Conventional Munitions Systems Inc. (CMS), and Bayern-Chemie, as well as for Dornier GmbH in the reconnaissance and guidance systems sector. Incoming orders increased by 21% to DM 3.0 billion.

Vigorous Growth in Civil Propulsion Systems

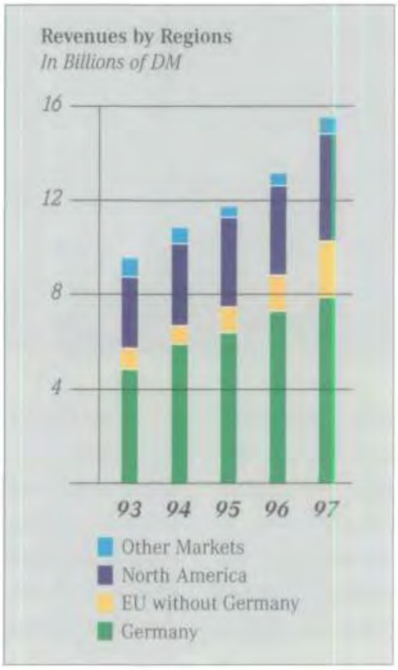
In the Aeroengines business unit, our subsidiary MTU Motoren- und Turbinen-Union Miinchen GmbH manufactures propulsion systems for civil and military aircraft, helicopters, and stationary applications in cooperation with European, American, and Japanese partners. In addition, MTU Miinchen is actively involved in the maintenance of military and civil propulsion systems.

The dynamic upward trend of Aeroengines continued in 1997 with business volume of DM 3.0 billion (+28%). Important contributions came from civil propulsion systems and maintenance services. Revenues from propulsion systems for military aircraft, on the other hand, did not quite reach the level of the previous year.

Incoming orders also rose briskly (27%) to DM 2.7 billion. As with revenues, the orders relating to civil propulsion systems played the most instrumental role here; they increased by more than 50%.

The Services Division had a very successful financial year 1997, and continued the positive development of previous years in all five business units. Revenues reached DM 15.5 billion, 22% higher than the comparable value for the previous year. At the same time, the division's contribution to the operating profit of the Daimler-Benz Group increased considerably from DM 288 million to DM 457 million.

In Millions of DM	1997	1996
Operating Profit	457	288
Revenues	15,498	13,143
Investm. in Property, Plant and Equipment	367	225
Employees (12/31)	14,898	11,500



Growth in Services Remained Strong

In the industrialized nations the services sector was once again one of the mainstays of economic growth and one of the most important pillars of the economy. In Germany, indications of a long-term upswing intensified in the corporate services sector, in which our Services Division is active, with the data processing sector growing at an above-average rate of 5.5%.

Business Volume Considerably Higher

1997 was a highly successful year for the Services Division. Revenues increased to DM 15.5 billion and were thus 22% higher than the comparable value for the previous year. Growth in the IT Services and Telecommunications and Media Services business units was especially pronounced at 32% and 44% respectively. In absolute terms, growth was the strongest in the Financial Services/Insurance Brokerage unit, with an increase in volume of 15% to DM 9.5 billion. But the other business units also expanded revenues. The development varied from market to market, but was particularly pleasing in the member countries of the European Union, where we were able to increase revenues to DM 2.4 billion (1996: DM 1.5 billion). Revenues in Germany grew by 8% to DM 7.9 billion. In 1997 we generated 51% of our business volume in Germany, 15% in the other EU member countries, 30% in the North America, and 4% in other markets.

Earnings Noticeably Improved

The division's contribution to the operating profit of the Daimler-Benz Group increased by a remarkable 59% to DM 459 million. All business units contributed to this success, and the favorable trend in exchange rates had a positive effect on operating profit. Once again, the most important source of income was the Financial Services/Insurance Brokerage unit. The operating profit of IT Services also expanded significantly.

More Than 3,400 New Employees

The number of employees rose markedly once again in 1997. At year-end debis employed 14,898 people worldwide (1996: 11,500 employees). Of this number, 4,049 worked for our foreign companies, nearly twice as many as in the previous year. We created new jobs in the three largest business units: Financial Services/Insurance Brokerage, IT Services, and Telecommunications and Media Services. In addition to existing trainee programs, we created 20 new apprenticeship positions in various IT professions.

Continued Internationalization of Services

The Services Division continued its systematic internationalization drive in 1997. New companies were established and new markets tapped by almost all business unit. Above all we see good opportunities in the Asia Pacific region and Eastern Europe to take advantage of these markets' growth potential.

Stake in Cap Gemini Sold

In July 1997 debis ended its partnership with Cap Gemini due to the incompatible strategic orientations of the two companies. After all, the partnership, which had existed since 1991, turned out to be very successful for both parties. However, the restrictions of the U.S. Bank Holding Company Act did not permit our IT Services unit the unrestricted pursuit of business activities in the USA, which is an important market for information technology, debis AG sold its 24.4% stake in Cap Gemini to Compagnie generate d'industrie et de participation (CGIP) and at the same time reacquired the shares held by Cap Gemini in debis Systemhaus. The IT Services unit will now focus on gradually expanding its international presence, particularly in Europe, and will utilize funds for acquisitions.

Revenues by Business Units In Millions of DM	1997	1996
Services division	15,498	13,143
Financial Services/ Insurance Brokerage	9,533	8,316
IT Services	3,155	2,397
Telecommunications and Media Services	2,312	1,606
Trading	445	445
Real Estate Management	220	69

Financial Services/ Insurance Brokerage: More Markets Tapped in the Asia Pacific Region

As part of its internationalization strategy, the Financial Services/Insurance Brokerage business unit established 15 new companies and is now doing business with 73 companies in 28 countries. We expanded our presence in the Asia Pacific region in particular. In 1997 we were able to increase both our new business and our contract volume considerably: new business reached 363,000 vehicles, while contract volume rose by 36% to 801,400 vehicles. Business volume picked up noticeably in Germany due to the expansion of our range of services. The new services we offer include innovative products such as Salesman on Demand (see page 49). In other European countries we significantly improved efficiency by establishing an internal European IT Service Center. Business was very encouraging in the USA as well where Mercedes-Benz Credit Corporation was able to expand new business by 21% to 95,000 new contracts.

The leasing funds we set up were very much in demand, making it possible to secure and place financing for ten large-scale products through debis Aviation Leasing. As a result, the funding volume managed rose to DM 4.3 billion (1996: DM 2.5 billion).

In the insurance sector, we increased our premium revenues by 11% to DM 1,030 million, primarily by expanding business with corporate and industrial customers. As part of a reengineering project, we critically reviewed our processes and identified optimization potentials. We focused on customer needs and demands and intensified sales activities in the interest of improving the quality of our consulting services.

IT Services: Focused on New Markets

The IT Services unit, debis Systemhaus, also expanded its international operations significantly in 1997. It was able to enlarge its customer base considerably as a one-stop shop for everything from consulting and the development of software solutions to the operation of application systems and communication networks. New companies were established in Spain, Denmark, South Africa, Singapore, and the United States.

Aside from internationalization, a key focus was the development and implementation of innovative solutions in areas such as electronic commerce and secure data transfer. debis Systemhaus was also able to gain new customers for redesigning their business processes in connection with the introduction of the Euro and adapting systems to calendar year 2000. Overall, the unit's business increased by 32% in 1997 and reached DM 3.2 billion. We generated 64% of revenue from customers outside the Daimler-Benz Group.

Telecommunications and Media Services: Dynamic Growth Continued

The business unit Telecommunications and Media Services profited from the growth in European telecommunications markets in 1997. Revenues increased by 44% to DM 2.3 billion. In Europe, debitel serviced 1.7 million customers by year-end (1996: 1.1 million customers). Since the founding of debitel Denmark, we have been represented in five European countries and can offer customers the same services thanks to a service concept that spans all five countries.

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We also expanded our activities in the traffic consulting and planning sector. Thanks to our know-how in the design and implementation of traffic and logistics systems, we were able to tap markets in European countries outside Germany. The navigation system implemented for the city of Tokyo is an important project in this respect. In Germany, Tegaron Telematics which offers precise traffic information for drivers, started operations.

In the online media sector we opened up new distribution channels through Primus-Online, our joint venture with Metro AG. According to the latest market research, revenues from the Internet are expected to reach some DM 200 billion by the year 2000. Our object is to quickly gain a substantial market share.

The effect is more than visual: The debis Haus at the Potsdamer Platz is redefining Berlin as a center of communication.

Trading: Business with Eastern Europe Intensified

Thanks to its 103 employees, all of whom have country-specific expertise and the necessary language skills, in 1997 the Trading unit completed numerous projects worldwide using state-of-the-art trading methods. The main emphasis was on significantly increasing our involvement in the CIS countries. By offering comprehensive service packages we were able to expand particularly the project business. Orjol Wheat 2000 is a project that can serve as a model for other efforts: debis Trading will organize the purchase and supply of the latest agricultural machinery, logistics, and services. This not only increases the wheat yield in Russia's Orjol region, it will also modernize downstream warehousing and production. In commodity trading we expanded our business substantially with the Mercedes-Benz collection. In the merchandising sector we were able to win new contracts.

Real Estate Management: Construction Management Extended to Include Other Projects

Construction management of the Potsdamer Platz project was once again the focus of our real estate management activities in 1997. Schedules and costs are on target, and one year before completion of the entire project, 60% of the usable floor space had been sold or rented. By the end of 1998 most of the 19 buildings will be completed and occupied. In addition, the Real Estate Management business unit took on construction management responsibilities for other external projects. Revenues tripled to DM 220 million.

New Home for debis Opened Its Doors at Potsdamer Platz

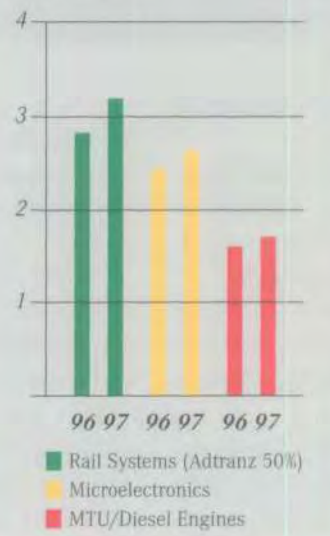
The first construction phase was completed at Potsdamer Platz after only three years of construction. The new administrative headquarters for debis was inaugurated on October 24, 1997 and handed over to the Services Division. Some 1,000 debis employees have moved into new offices in the heart of Berlin.

The directly managed businesses comprise three business units, Rail Systems (Adtranz joint venture), Microelectronics, and MTU/Diesel Engines. In 1997, Adtranz generated revenues of DM 6.4 billion, a 13% increase over the previous year. Incoming orders were up 30% and reached DM 7.5 billion. However, Adtranz recorded an operating loss. At Microelectronics, revenues rose on a comparable basis by 25% to DM 2.6 billion and incoming orders by 44% to DM 2.8 billion. Operating profit significantly improved and became positive. The MTU/Diesel Engines unit was able to continue the upward trend that it enjoyed for several years and increased revenues to more than DM 1.7 billion. Operating prof it also improved.

In Millions of DM	1997	1996
Adtranz*)		
Revenues	6,379	5,670
Incoming Orders	7,450	5,736
Employees (12/31)	22,715	21,841
Microelectronics		
Revenues	2,648	2,455
Incoming Orders	2,799	2,301
Employees (12/31)	11,099	10,976
MTU/Diesel Engines		
Revenues	1,717	1,614
Incoming Orders	1,755	1,581
Employees (12/31)	5,758	5,576

*) Of which 50% are included in the financial statements of the Daimler-Benz Group.

Revenues Directly Managed Businesses
In Billions of DM



Rail Systems

Higher Revenues and Incoming Orders

Adtranz, the joint venture of Daimler-Benz and ABB, maintained its worldwide position as the leading and most complete rail systems supplier, from rolling stock and fixed installations to signaling and customer support, via a growing network of competent local operations around the world.

1997 was characterized by new orders worth DM 7.5 billion (+30%) in a growing, but highly competitive, market. Many of the contracts awarded in previous years entered the delivery phase. Revenues picked up in the last quarter of 1997, above all in Germany, indicating significant improvements in delivery performance. Total revenues increased to DM 6.4 billion (+13%) in the year under review.

Measures to Improve Earnings

In anticipation of increasing price pressure and with continued overcapacity, particularly in Europe, Adtranz plans to speed up its restructuring programs in order to lower its cost base and to improve its competitiveness. Considerable provisions were made for the proposed restructuring measures; as a consequence, the operating result for 1997 deteriorated noticeably and was negative.

Major Projects and Contracts

Adtranz was awarded an order for new generation high-speed trains and fixed installations for the Oresund project linking Sweden and Denmark. Other major orders included turnkey rail systems in Adana, Turkey and Oporto, Portugal. Moreover, major orders were secured in Western, Central, and Eastern Europe as well as in the USA.

After years of uncertainty the U.K. rail market is prospering following privatization. Adtranz won orders in the U.K. for diesel and electrical multiple units totaling over 400 vehicles with options for more than 800 additional cars and a major order for maintenance.

The prospects for new orders look promising. Despite delays in awarding new infrastructure contracts due to financial turbulences in certain Asian countries, significant growth of the rail market in that region is anticipated.

Technological Efforts

In 1997 Adtranz developed seven new vehicle platforms ranging from the new people mover, light rail vehicles, and metro trains to regional and intercity multiple units and electric locomotives. All are based on modular and standardized designs, reflecting customer demand for highly efficient and reliable vehicles.

Investments in global development programs amounted to more than DM 240 million in 1997.

Adtranz focuses on technology development to make railway operators competitive with other modes of transport. Fundamental research in the area of vehicle dynamics is essential for vehicles capable of speeds up to, and in excess of, 250 km/h on existing infrastructure. As a consequence, a new modularized cast bogie with superior running characteristics is being introduced as a basic component of Adtranz's coming generation of high-speed multiple unit trains.

The Signaling unit at Adtranz is introducing a very important function to enhance operating economy. It is based on computerized systems on board trains, radio-connected to the operational system and to control centers along the track.

The Gardermoen Express in Oslo is the forerunner of a new Intercity product platform.

Important Acquisitions and Capital Investments

Adtranz devoted considerable efforts to modernize the production plant of its Polish company, Pafawag. In 1997 Adtranz acquired the majority share in Pafawag and has managed to turn it into an efficient producer not only for the Polish market, but also for low-cost standardized mechanical components throughout the Adtranz group.

Adtranz acquired another 25.9% of Adtranz MAV Dunakeszi, Hungary, in 1997, becoming the majority shareholder. This company will become important in customer support both in Hungary and surrounding European countries.

Effective January 1, 1998, Adtranz acquired the rolling stock business of Schindler Waggon, Switzerland. With this acquisition Adtranz Switzerland becomes a fully fledged manufacturer of complete rail track vehicles.

In order to strengthen its presence in Asia, Adtranz established its fourth corporate center in Singapore in 1997 and opened a signaling center in Bangkok. In addition, a new business segment was set up at Adtranz at the beginning of 1998 to coordinate activities in Asia for better market penetration.

Microelectronics

Growth in Automotive Electronics and Semiconductors

In 1997, revenues, incoming orders, and earnings rose markedly in Microelectronics. In the automotive electronics and semiconductor sectors, TEMIC was able to expand its revenues by 25% to DM 2.6 billion; orders increased by 44% and reached DM 2.8 billion. TEMIC generated nearly half its revenues in Europe and 24% each in North America and the Far East.

The automotive electronics sector recorded above-average growth in revenues of 52% to reach more than DM 1 billion. At the same time, incoming orders were 64% higher and totaled DM 1.2 billion. The semiconductor market recovered in 1997 after a difficult 1996; this development was exceptionally profitable for our semiconductor activities. Incoming orders for semiconductors grew by 42% to DM 1.6 billion, while revenues were up 18%, surpassing DM 1.5 billion.

Focus on Automotive Electronics

Following the decision to concentrate on core activities, the Semiconductor unit was sold in early 1998 to the U.S. company Vishay Intertechnology, Inc., based in Malvern, Pennsylvania.

TEMIC will now concentrate exclusively on the fast growing activities of automotive electronics. In the year under review it comprised six product groups: engines and chassis, safety, comfort, ABS, sensor systems, and electric motors. TEMIC's product range covers the majority of automotive electronics applications. The new structure will enable it to access the market more quickly. Customers include all the well-known automotive manufacturers in Europe, USA, and Asia.

Worldwide Development and Production Network

Our global development and production network is designed to further enhance productivity and thus secure a competitive edge. Capital-intensive production in Germany is allied with production at low-cost locations in Asia, Eastern Europe, and Central America.

Technological Competence

Usage of electronics in motor vehicles is steadily gaining ground. As many as 90% of all innovations introduced to the vehicle market today are based on electronic applications. Electronics facilitate driving and simultaneously offer greater comfort and more safety. With its portfolio of electronic control units and other products, TEMIC has established itself as one of the world's most important suppliers in the industry. In certain market segments TEMIC is the technological leader; for example, it has developed its competence in ABS and airbag electronics over several decades, and is a leader in sensor technology and modern distance control systems.

A number of electronic components in automobiles rely on sensors that measure environmental factors, recognize changes, and trigger appropriate reactions. For example, acceleration sensors are a key element in every airbag system. TEMIC has been manufacturing these sensors since 1997 using a new technology that replaces mechanical construction with a micromechanic arrangement on a silicon basis. The sensors can be produced much more efficiently and in greater quantities.

Another innovation is the distance-warning radar developed by TEMIC's subsidiary Automotive Distance Control Systems (ADC). The system maintains a constant speed selected by cruise control, automatically decelerates if road conditions change, and accelerates again when the car returns to the open road. The system will be ready for series production in 1998 (see page 48).

Other potential improvements include taking antilock braking systems a step further with Electronic Stability Programs (ESP), a development that prevents cars from swerving in critical situations. In addition, distance warning radar helps to prevent accidents. In case of a crash, the related airbag electronics system provides optimum protection for driver and passengers. Innovative engine and powertrain solutions will continue to reduce fuel consumption without sacrificing performance. Finally, linking functional units with a car's on-board computer will provide diagnostic and service functions in the future.

MTU/Diesel Engines

Revenues Continue to Rise

In the year under review the MTU/Diesel Engines business unit, based in Friedrichshafen, was able to increase its revenue to more than DM 1.7 billion (+6%). At the same time, incoming orders rose to nearly DM 1.8 billion. More than 60% of the business volume was generated in export markets. Aside from EU countries, Asia was the most important sales region for MTU products. The way business developed in Germany was equally encouraging. Together with measures to reduce costs, business expansion led to noticeably improved earnings.

MTU has been continuously expanding its sales organization to reinforce its excellent position in the world markets. Aside from the new customer service center in Soochow near Shanghai, China, the formation of a subsidiary in Thailand in 1997 represented another step toward establishing comprehensive customer support. The development of a marketing organization is also under way in the countries of the former Soviet Union. Outlets in Russia, Ukraine, Georgia, Kazakstan, and Azerbaijan will expand MTU's customer support network to 330 service centers in nearly 100 countries.

Gained Market Shares with Cooperative Ventures

On the basis of existing MTU diesel engines, our Magdeburg-based partner SKL Motoren- und Systemtechnik GmbH will develop a natural gas, in-line, and heavy fuel engine with an output between 250 and over 2,000 kW. It is our aim to offer competitive products in the promising natural gas engines sector as early as 1999.

Series production of the 2000 and 4000 engines, developed with our American partner Detroit Diesel Corporation, started in 1997 as planned. The engines are used in yachts, power generation units, rolling stock, and dump trucks. Brisk demand suggests that revenues will continue to rise.

Market Leader in Marine Engines for High-Speed Ferries and Government Ships

MTU has been a market leader in the high-speed ferry sector for years. The trend toward using larger and faster ships for important sea routes continued in 1997. Despite increasing competition it was possible to expand the market share for diesel-powered ships to nearly 70%. MTU engines, combined with gas turbines, will power four 150 meter high-speed ferries operated by an Italian shipping company. These are the largest high-speed ferries ever built. With this contract MTU managed to gain entree to a type of ship that will set new standards with respect to speed and hauling capacity.

The slight revival in procurement projects of navies and government agencies has led to a steady rise in incoming orders in this segment as well, particularly from the Asian region above all. Larger orders were received for the new 2000 series, which found rapid acceptance with government agencies and yachts.

Specialist in Complex System Solutions

In the field of decentralized energy systems we received several orders for facilities using fuel/water injection technology after a number of pilot facilities were successful. At this time, MTU is the only manufacturer offering this concept in mass production. It significantly reduces engine emissions and already meets future emission standards.

Incoming orders and revenues rose noticeably in the rolling stock segment as well, particularly from Germany, China, Indonesia, and Greece. The increase in demand for diesel rail cars was especially strong in Europe. MTU developed complete propulsion units for rail cars, which are preassembled and installed into the vehicles.

In the heavy mine vehicles segment, the trend toward larger dump trucks and excavators is continuing. Once again, MTU achieved a market share for dump trucks of more than 40% in 1997. With the new 4000 series it also managed to tap the market for large excavators.

Steady decline in defense budgets meant that demand for diesel systems for military vehicles remained at a low level. On the other hand increasing standardization of equipment for NATO member states may have a favorable effect in the future. MTU's EuroPowerPack is a universal diesel unit for heavy tracklaying vehicles and represents an internationally renowned product with tremendous market opportunities.

In drive shafts for passenger cars, vans, and light commercial vehicles, the positive trend of the past few years continued. Deliveries for Mercedes-Benz vehicles once again comprised the largest share of revenues. Business with customers outside the Daimler-Benz Group also grew. For example, a delivery contract was concluded with Volvo. We are also conducting promising negotiations with other automakers.

In the injection system sector our subsidiary L'Orange had a very good year. Demand for medium-speed diesel engines boosted demand for injection systems. The development of innovative injection technologies helped us to penetrate additional markets. The common rail injection technology is especially noteworthy; we introduced it as standard for large, high-speed diesel engines for the first time in 1997 (see page 48).

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The responsibilities of Research and Technology essentially are to support individual business units in the development of technological strategies, securing integrated innovation and technology management through networked and knowledge-based cooperation with the units, and creating the foundations for product qualities that stand out against competitors.

The Hub of Technology

Research and Technology is the hub for securing the technological future of the Group. Its new structure enables innovation to be more rapidly incorporated into products. In 1997, 1,300 patent applications were filed in Germany alone. Outside Germany 4,400 new patents were filed, almost double 1996.

Here are some examples of key projects where we made significant progress in 1997.

Trendsetting Vehicle Concept

We introduced the F300 Life Jet at the 1997 International Motor Show in Frankfurt (IAA). It is a trendsetting concept vehicle that combines the cornering dynamics and feel of a motorcycle with the safety and comfort of a passenger car. The vehicle is designed as a two-seater and has two front wheels and one rear wheel. Its most important innovation is called "active tilt control," which enables the front wheels and the body to automatically lean into corners at the optimal angle. As a result, the F300 achieves the ratings of a high-performance motorcycle with respect to speed in curves and radial acceleration.

We are currently investigating the market potentials of this vehicle.

New Technologies and Materials for Aircraft Construction

Together with Daimler-Benz Aerospace, the Research and Technology division is working on the innovative construction of an integral aircraft fuselage structure. The project involves the use of laser welding technology in connection with new weldable aluminum alloys. This innovative technology represents a quantum leap in production technology and could well revolutionize the assembly of aircraft. It makes possible the replacement of conventional riveted joints in aircraft construction which could reduce weight by 20% and cut production costs by 10%.

Such an extremely light aluminum/lithium alloy is likely to be used in the A3XX widebody aircraft.

Virtual Design of Passenger Cabins

Using the virtual cabin model, developed with Dasa for the A3XX, airlines can create a customized layout for seating arrangements and service areas.

Even before the first prototypes, alternative cabin versions can be presented in virtual reality and compared and evaluated at the push of a button. This enables us to take customer needs into consideration at a very early stage.

Roadside Assistance: Mobile Diagnosis on the Spot

The Daimler-Benz Research and Technology Center in California and the Vehicle Research Center in Stuttgart are developing a Roadside Assistance Program in cooperation with Mercedes-Benz North America. It is a mobile service supported by satellite communications for all Mercedes-Benz vehicles in North America.

In the event of a breakdown, a service vehicle will be directed to the customer with the aid of central headquarters and will conduct a detailed diagnosis so that in connection with headquarters problems can be resolved on the spot.

A similar program for the European market is also being developed.

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Value Creation by Innovation

Innovation - The Key to Corporate Success

Promoting innovation is an essential element in Daimler-Benz's value-oriented management: innovative products play a major role in market performance and thus in increasing corporate value. But they also form the basis for secure and attractive jobs for our employees as well as successful, long-lasting relations with our suppliers.
In consideration of the steady intensifying competition it will be increasingly important for the future to rapidly transform ideas and concepts into marketable products. This is why Research, Development, Production, and Sales joined forces of an integrated process to develop product characteristics that will distinguish us in competition. The basis therefore are analyses of social trends, global technology monitoring, and technology strategies tailored to the respective product segments. They are instrumental for the creation of innovative products and services that our customers demand and deserve. Here some examples of our innovations are given:

Tokyo's traffic control center compiles all of the necessary traffic statistics for our auto-pilot system in the Japanese capital.

Award of "Deutscher Zukunftspreis"

Three of the five finalists in the competition for the 1997 Deutscher Zukunftspreis were from the Daimler-Benz Group. The winner of this distinguished prize, that is awarded by the German president each year, for technical, engineering, or scientific achievements, was Christhard Deter, head of development for our *Laser Display Technology (LDT)* joint venture project.

Our other finalist projects were the emission-free A-Class *NECAR 3* and the *HeliRadar* helicopter radar system developed by Dasa researchers.

The jury's decision honor our researchers' efforts and the innovative strength of the Company. This strength is also apparent in many other new products, services, and organizational forms in all our business units.

Future Outlines

The *Laser Display Technology (LDT)* developed in a joint venture with Schneider Rundfunkwerke AG was presented at the Internationale Funkausstellung in Berlin in August 1997. It is nothing less but a

In the space of only three years, fuel cell technology shrank to fit the A-Class format.

quantum leap in the field of visual picture display.

The new technology is based on the deflection of a laser beam that builds up an image line by line at high speed; the laser point moves along the projection surface at a speed up to 90 kilometers per second. The laser image always appears needle sharp, even if the projection intervals vary. There is no need to re-adjust the image as there is with slide projectors.

Because of its ability to project television images on wall-size formats in the same high quality, *Laser Display Technology* is equally suited for training and exhibition shows as for large-scale events in sports halls or at stadiums.

We also expect this technology that is today still rather costly, to become affordable for private consumers in the medium-range future.

Good Visibility in Bad Conditions

The *HeliRadar* is the first technology to make it possible for helicopters to fly at night or in dense fog without any restrictions. This ability is especially important for rescue missions. In the past, helicopters were only permitted to fly in visibility ranges of at least 1,500 meters; such limitations do no longer apply to *HeliRadar.*

The system works with four microwave cones that are synchronized with the rotors. The cones help to create a computer-animated image that clearly and distinctly shows hard-to-perceive objects such as high-voltage lines even under the most adverse visibility conditions.

Start of series production of the *HellRadar* is estimated for the end of 2001.

Emission-Free Future by Fuel Cell Technology

Our research efforts in fuel cell technology are the most advanced in the world. After introducing a fuel cell city bus powered with hydrogen in May 1997, we unveiled the *NECAR 3* (New Electric Car 3), the first fuel cell vehicle powered with methanol, at the IAA in Frankfurt. It is a two-seat concept car for the Mercedes-Benz A-Class. Because it eliminates the need for a hydrogen tank, the *NECAR 3* is suited for everyday applications: methanol does not require any special safety measures while refueling. The emission-free A-Class car runs 400 kilometers on a 40-liter tank of methanol.

We also laid the foundation of a promising future in fuel cell technology from an organizational point of view by centralizing the research and development team at one location in Nabern, and by increasing the number of team members up to 130. All activities are now coordinated by the new Fuel Cell Project organizational center.

In December 1997 we established a comprehensive partnership with our existing research and development partner Ballard Power Systems Inc. and with Ford Motor Company concerning research, development, and marketing of fuel cell propulsion. Together we plan to develop the technology to production maturity in order to deliver complete systems for use in vehicles by the year 2004.

MTU Friedrichshafen sets new standards in stationary fuel cell applications. In cooperation with different partners MTU develops two innovative electrochemical energy converters: high-temperature fuel cells for power plant applications and electrolyzers for producing hydrogen close to consumption as industrial gas or fuel.

Common Rail Puts Pressure on Diesel

Common Rail is an injection method that distributes fuel to the injection nozzles via a common rail. At the same time it functions as an accumulator, this means that unlike with conventional technologies the injection pressure does not have to be generated anew for each cycle.

Together with its subsidiary L'Orange, MTU Friedrichshafen developed a *Common Rail* injection system, and as the first manufacturer in the world introduced it in the form of the 4000 diesel engine series to the market in mid-1997. The new engines are used in ships, locomotives, large dump trucks, and power generators.

Also CDI stands for new standards in direct diesel injection for passenger cars. Additional to its low emission levels and smooth running, the Mercedes-Benz C 220 CDI packs powerful performance characteristics. The *Common Rail* linked with turbocharging, charge cooling, and four-valve technology makes it all possible.

V8-CDI prototype with twin turbocharging: High performance coupled with low consumption.

One thing all of our *Common Rail engines* have in common is their low fuel consumption. The C 220 CDI can travel some 1,000 kilometers on a full 62-liter tank.

Free and Independent Valves

Our research team also developed a technology called *Electrohydraulic Valve Control.* It is capable of reducing fuel consumption by up to 10%, reducing emissions in diesel and spark ignition engines, and noticeably improving engine braking characteristics.

Because the valves can be controlled freely and independently from each other, the engine can adapt to the relevant operating conditions. In city traffic, for example, it is important to keep emissions and fuel consumption at a minimum, while engine power, torque, and performance do count in passing maneuvers.

We are testing the new technology in continuous operation on the test rig in order to gain experience with valve control applications.

More Safety and Comfort Thanks to Electronic Aids

At the 1997 IAA we presented a number of groundbreaking electronic systems that will make driving safer and more comfortable in the future.

The *Auto Pilot System (APS),* which is already available for many Mercedes-Benz models, will take up-to-the-minute traffic reports and congestion alerts into consideration for recommending individual routes. A comparable system is already installed in Tokyo.

The automatic emergency call system TELEAID automatically calls the police and ambulance to the scene of accident.

Mercedes drivers may operate their car phones with *Linguatronic,* a voice-activation system that is unprecedented around the world.

Computer kids can surf the Net on the way to grandma's house.

Our electronic distance and cruise control system uses a radar sensor in the radiator grille to detect vehicles ahead within a range of up to 150 meters. In fractions of a second it calculates the distance and relative speed to the next car and adjusts the vehicle speed accordingly.

Multimedia@Mercedes

The Daimler-Benz Research and Technology Center in Palo Alto, California presented the first multimedia Mercedes car in September 1997.

The *Internet Multimedia on Wheels Concept Car* - a silver Mercedes-Benz E 420 - is equipped with a communication system that allows Internet access on the road. The driver is connected with the world at the press of a button or with a voice-activated command. A total of three monitors are installed in the vehicle: one on the dashboard and two on the back of the front seats.

The car's unique Internet address also opens up new opportunities for maintenance. At the driver's request the service center can call up technical information, make remote diagnoses, troubleshoot problems online, and transfer software updates to the onboard electronic system. But other applications such as constant road and traffic updates are conceivable as well.

It will probably take another five years or so until this technology is ready for mass production.

Adaptive Aircraft Wing Reduces Fuel Consumption

The *Adaptive Wing* concept jointly developed by Dasa, the German Research Institution for Aerospace, and Daimler-Benz Research is the beginning of a comprehensive technological campaign, that may well cut fuel consumption of large commercial aircraft in half within the next twenty years.

Development target include flaps with variable shapes that optimize the ratio between upwind and air resistance depending on flight conditions. Our researchers have developed such a concept for the flexible trailing edge of a landing flap. It is stable enough to withstand aerodynamic forces, but resists the desired distortion with minimal elastic forces only. We have already been able to prove the functioning of the concept with a full-scale model of a A340 wing section.

Service at the Press of a Button

Service providers are mainly measured by the quality of their consulting abilities, but getting this quality across largely dependents on the consulting staff.

In future, to ensure the highest standards, Mercedes-Benz customers will be able to call immediately consultants from MB Lease Finance. A multimedia terminal will be installed in each Mercedes-Benz showroom and a financial consultant will be available for matters of concern by video conference over ISDN lines. The customer will see both the consultant and the monitor mask. The *Salesman on Demand* can respond to customer requests at any time and can prepare a customized offer that the customer may print out.

Environmental protection is an important corporate objective for Daimler-Benz. Our efforts focus on continually reducing the environmental disadvantages connected with the development, production, usage, and recycling of our products. In order to integrate environmental protection even better within our development activities, we appointed a liaison for each development area being responsible for environmentally compatible product development. The Group's environmental activities are coordinated by the environmental spokesperson.

New Approaches to Environmental Reporting

In 1997 we presented the Daimler-Benz Environmental Report in two parts for the first time. In the facts and data section, we responded to the desire for greater intelligibility voiced by environmental associations. In addition, we are inviting young journalists to test our environmental protection efforts when they report on our protection measures in the environmental newsletter. In a competition organized by the Bavarian Communication Association, our environmental report won the distinction of being the best in that category. The following examples show the progress that we have made in environmental protection.

Environmental Protection and the A-Class

Environmental considerations play a major role in the A-Class. The A-Class sets new standards in fuel consumption and emissions. Measured according to the new European driving cycle, fuel consumption is as much as 13% lower than that of competing products. We have also reduced the number of different plastics used; 86% of the thermoplastic parts now consist of no more than five materials, which means scrap vehicles can be utilized more efficiently. In order to accelerate the materials cycle, the use of recycled plastics has already been approved for 19 components, or 9% of the total number of parts. In production-related environmental protection, the paint structure represents a special technological advance; we use water-based paints for the first few layers. Our new clear paint process is also very environment friendly. Our powder slurry clear paint has significantly lower solvent emissions than the maximum allowed.

Mercedes-Benz Recycling System

We documented our contribution to resource conserving when we introduced the Mercedes-Benz Recycling System (MeRSy) in 1993, long before the new materials recycling ordinance was enacted in Germany in 1996. As part of our recycling system, dealers and authorized service centers in Germany, Switzerland, Austria, and Luxembourg take back parts such as bumpers, side paneling from passenger cars, tires, window glass, brake fluid, and catalytic converters for reuse or recycling. In Germany more than 95% of our outlets and authorized dealers participated in MeRSy in 1997. Among other things, we took back some 366,000 scrap tires, 449,000 individual parts, and 630 tons of bulk material in connection with the MeRSy program. Our aim is to re-use the recyclates in the automotive sector. We have already succeeded in reusing the material recovered from bumpers, hubcaps, and brake pads. It is our intention to expand this system to include all of Europe.

Environmental Prize for Minimum-Quantity Lubrication

Cooling lubricants are used in many machining production processes in order to reduce friction and remove the filings produced. But cooling lubricants represent a potential hazard for human beings and the environment.

Using the new technology of minimum-quantity lubrication (MMS), we can successfully prevent the tooling from getting clogged up. At the end of 1995 we were able to produce an integral aircraft component using MMS technology (20 ml/h) in a test for the first time; the amount of lubricant used until then was as high as 3,000 l/h. Because a maximum of one liter of cooling lubricant is needed for one hundred billion shavings, the filings stay dry and can be directly recycled without any additional treatment. The lubricant used in MMS technology is classified as an edible oil and thus complies with the strictest environmental requirements. MMS has been used in series production at the Dasa plant in Augsburg since mid-1996. Our researchers were awarded the 1997 Environmental Prize of the City of Ulm for this innovative process.

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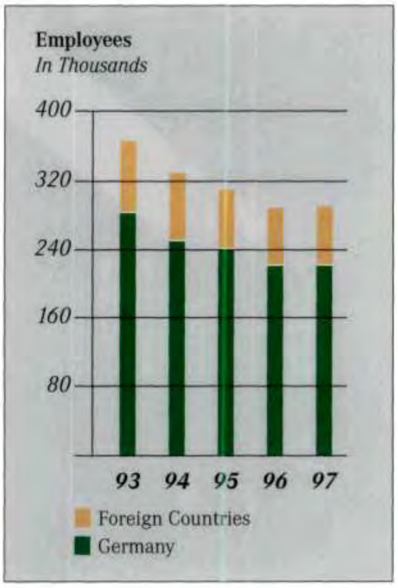
Agreements, which we concluded with employee representatives at various locations in 1997, make an important contribution to increasing the Group's earning power over the long term and safeguarding jobs in Germany. Adjusted for changes in the consolidated Group, we created a total of some 12,000 new jobs. We introduced modern new remuneration and profit sharing models in order to involve employees even more actively in the success of the Company. Other focal points included international junior personnel efforts and employee qualification programs.

Employees	1997	1996
Passenger Cars	91,753	83,732
Commercial Vehicles	85,071	80,483
Vehicle Sales Organizat.	30,518	29,615
Aerospace	43,521	44,936
Services	14,898	11,500
Directly Managed Businesses	28,293	31,005
Headquarters/Others	6,014	8,758
Daimler-Benz Group	300,068	290,029



Positive Employment Situation

At December 31, 1997 we had 300,068 (1996: 290,029) employees worldwide, of whom 225,266 worked in Germany alone. Adjusted for changes in the consolidated Group, workforce was 12,000 employees larger than one year before. Daimler-Benz thus set a positive example at a time of high unemployment.

Profit Sharing and Equity Participation Expanded

By directly involving employees in the Group's success we intend to strengthen their identification with the Group, reinforce the idea of performance, and make each member of the workforce more aware of his or her contribution to the Group's earnings.

To achieve this, we introduced a profit sharing scheme for all employees that is directly tied to corporate earnings. This means that in financially successful periods employees will receive higher payments than in the past; if earnings are less satisfactory payments they receive will be correspondingly lower.

As compared to the previous year, we were able to make the conditions for acquiring employee shares more flexible and thus more attractive. During 1997, 75,000 employees acquired shares at a tax-favored preferred price.

For upper management, we repeated the offer to subscribe for stock options as introduced in 1996. Due to the' very positive response, we extended the group of allottees in 1997 to include the second management level.

New Approaches to Company Pension Schemes

The Company pension plan forms the core of our social benefits program. In the year under review, a total of DM 488 million was paid to some 65,000 retirees, surviving spouses, and children. In 1997 the Group's expenses for pensions as determined in accordance with U.S. accounting principles, amounted to DM 1.5 billion. The high priority we attach to Company pension benefits is reflected in the 1997 financial statements for Daimler-Benz AG prepared in accordance with the German Commercial Code. They include extraordinary additions to pension provisions amounting to no less than DM 1.3 billion. We are thus adapting the pension provisions of Daimler-Benz AG to the evaluation of the Group, which in accordance with U.S. accounting standards has a higher valuation and therefore shows the appropriate value of obligations.

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Our attractive offer to convert the non-salary portion of our employees' bonus payments to an equivalent contribution to their Company pension makes it possible for our employees to supplement their future pensions by making separate contributions.

Improving Competitiveness

We concluded a number of agreements with the Labor Council in 1997 that further improve our cost position and may significantly strengthen our competitive edge as a consequence. These agreements represent an important step toward increasing the Company's long-term earning power as well as job security.

Securing the Company's Future by Training Juniors

In the fall of 1997 we employed more than 3,000 trainees throughout the Group; 10% more than in the previous year. Daimler-Benz recognizes its social responsibility to offer career prospects to young people. At the same time, this gives an employee a secure base for the years ahead. Highly qualified and committed junior personnel strengthen our position in international competition and guarantee the future success of the Group. Visible signs of our effort to give junior personnel job security include various offers to study at the Vocational Academy and our junior staff groups in Germany and abroad.

Qualified and committed employees are the basis of our success in international competion.

Daimler-Benz Academy

The Daimler-Benz Academy, founded in the summer of 1997 as a "corporate university", promotes the qualification and enhanced professionalism of our executives, supports greater understandig of the strategic alignment of the Group, and encourages innovation and technology transfer.

International Orientation for Human Relations

Since 1997, we have been using a new procedure for planning and developing executives that offers considerably greater transparency with respect to assessing their potential. The new system, which involves some 12,000 employees, forms the basis for the continued intensification of worldwide personnel rotation and the targeted development of executive management.

In order to support the increasing globalization of our business we continued to internationalize our human relation efforts in the past year. By promoting juniors in regional groups in the USA, Central and Eastern Europe, South America, and Asia we contribute to cover our growing need for internationally employable managers.

In addition, the Group's globalization drive was supported with intercultural qualification offers, transnational project assignments, and targeted foreign rotation. More than 1,700 employees from German locations were on foreign assignments in 1997.

Thanks to Our Employees

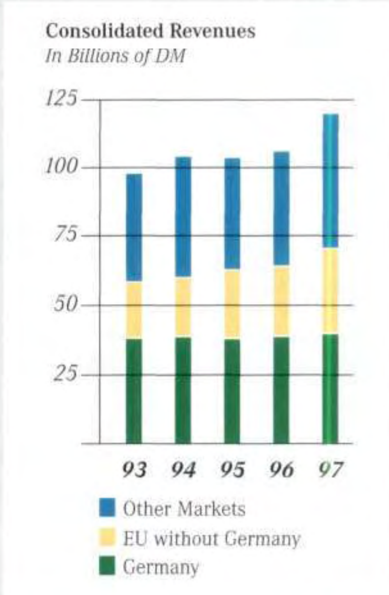
Our employees' expertise, high level of commitment, and creativity were instrumental in the success achieved by the Company in 1997. We would like to thank all of them for their efforts and dedication. We would like to extend the same thanks to the Labor Council and management committees at all levels of the Company.

On the basis of the encouraging business development in 1997 we strengthened the sustained earning power of Daimler-Benz. The operating profit rose to DM4.3 billion (1996: DM 2.4 billion), and the previous year's 5.8% return on capital employed rose to 10.2%. We are thus significantly closer to the Group's minimum return of 12%, the target we set in the context of our value-based management. Balance sheet ratios continued to improve during 1997, and cashflow from operating activities reached a new high.

Global Economic Environment Slightly Improved

The upward trend of the world economy continued in 1997. Most decisive factors were the vigorous economic growth in North America and the U.K. and the export-driven revival of the economy in Germany and other member states of the European Union. However, due to lower domestic demand, Japan's economy experienced a phase of pronounced weakness. In a number of the ASEAN states the economic situation was seriously impaired in the latter half of 1997 by the financial and monetary crises. Overall, economic developments were positive in Latin America, where the upswing gained strength while inflation rates declined. In Russia and other CIS countries first signs of economic stabilization appeared in 1997, while the economic upturn in the countries of Central Europe temporarily lost some speed.

On the whole, the world economy grew by 3.0% in 1997 (1996: 2.9%). Calculated on the basis of their shares in consolidated revenues, average growth in the selling markets of Daimler-Benz was significantly higher at 2.9% than the previous year (1996: 2.1%).



Favorable Exchange Rate Development

The devaluation of the German mark against important currencies in Europe and overseas had a positive effect in general on the Group's business during 1997. In particular, it substantially improved the competitive pricing of our German-made products. Average exchange rate for the U.S. dollar in 1997 was at DM 1.73, 23 pfennigs higher than in 1996. Within the European Union, the British pound was one of the strongest currencies; it gained 21% against the German mark.

Daimler-Benz: Value-Based Management Instruments Introduced Company-Wide

Following the introduction of new control instruments and the conversion of our accounting to the principles of U.S. GAAP in 1996, our activities in 1997 were above all focused on consistently implementing the new instruments of our value-based management throughout the Group. We also concentrated on familiarizing our employees with these instruments through training seminars and a comprehensive information program. In addition, we began identifying management's potential leverage in each of our 23 business units in order to gain intelligence on the significant drivers of value and costs. These parameters, which differ from unit to unit, can essentially be broken down into growth-oriented, efficiency-oriented, and financially-oriented value drivers.

On this basis, our intent is to develop a business-specific value enhancement strategy and to establish a clear allocation of responsibilities in order to make the responsible individuals in our business units aware of the prerequisites for profitable future growth.

Operating Profit Noticeably Improved

In 1997 we succeeded in significantly increasing the earning power of Daimler-Benz in all of its divisions and in nearly all of its business units. This pleasing development is manifested, both in the growth in operating profit from DM 2.4 billion to DM 4.3 billion and in the substantially higher return on capital employed at 10.2% as compared to the previous year (1996:5.8%).

Consolidated Revenues Up 19%

Our consolidated revenues rose to DM 124.1 billion in 1997 (1996: DM 106.3 billion). Adjusted for structural changes this corresponds to a 19% expansion. Growth was especially strong in the USA (+26% to DM 24.0 billion) and in partner countries of the European Union (+21% to DM 31.5 billion). In Germany our business volume reached DM 41.1 billion (+5%). Summing up, other markets recorded an increase of 25% to DM 27.5 billion.

Growth in revenues was supported by all divisions. The Passenger Car and Commercial Vehicle divisions achieved revenues of DM 53.9 billion (+16%) and DM 39.1 billion (+22%), respectively new highs. The Aerospace Division increased its revenues, by a comparable figure, 20% to DM 15.3 billion; in the Services Division revenues climbed to DM 15.5 billion (+22%), and in the Directly Managed Businesses to DM 7.6 billion (+17%).

Excluding deliveries within the Group, Passenger Cars contributed 41% to consolidated revenues, Commercial Vehicles 30%, Aerospace 12%, Services 11%, and the Directly Managed Businesses 6%.

Further Development of Group Portfolio

After initiating review and streamlining our group portfolio in 1995, that led to our present concentration on 23 businesses, we continued our systematic development of the Daimler-Benz portfolio in 1997. Units that are capable of attaining leading market positions by international standards and above-average returns in their industry were strengthened with appropriate partnerships and acquisitions. At the same time, we backed off from activities that are not capable of making significant medium term contribution to increase corporate value.

The Commercial Vehicle Division expanded its leading position in the North American market for heavy trucks by acquiring Ford's heavy truck business. In September 1997 our share in Micro Compact Car AG, responsible for developing, producing, and marketing the smart city coupe, rose to 81% in September 1997 caused by an increase in capital.

Dasa was able to improve its international competitive position in the areas of defense technology and space systems through its partnership with the French Lagardère Group. The same objective prompts the intended takeover of Siemens' defense electronics business. This company specializes in communication and guidance systems as well as equipment and systems for integrated air defense. Its revenues in 1997 totaled DM 1.2 billion and its workforce consisted of some 3,800 employees. This acquisition will enable Dasa to strengthen its market power and will put it in a position to shape future structures in the European defense industry.

In June 1997 debis ended its partnership with the French software company Cap Gemini.

We sold the semiconductor activities of TEMIC to the American company Vishay Intertechnology Inc. with retroactive effect as of January 1, 1998.

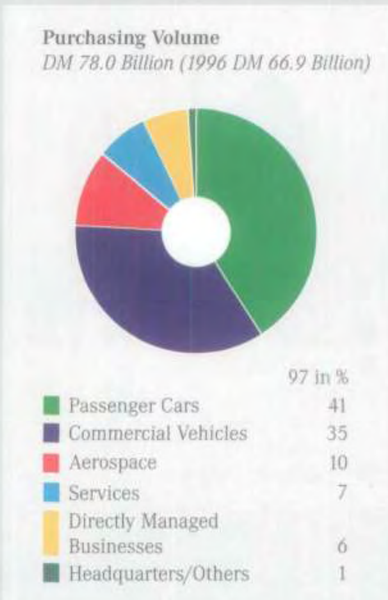
Together with our partner ABB we have decided to increase capital stock of Adtranz in the interest of ensuring longterm competitiveness and growth strategy of the Rail Systems unit.

New Management Organization Implemented

New management organization, implemented since April 1997, has enabled us to realize greater efficiency and more favorable costs for administrative and planning processes in the headquarters and in all units of the Group. Through consolidation of central units and elimination of reporting levels, decision-making channels within the Group have been shortened significantly. This has given greater latitude for action to operating units which are actively involved in the markets, and it enables them to compete more flexible and to be closer to the customer.

12,000 New Jobs in the Daimler-Benz Group

Thanks to the market success of our products and the significantly improved competitive position of the business units, we were once again able to create new jobs in 1997. The number of persons employed within the Group rose to 300,068 (1996: 290,029 persons). Adjusted for changes in the consolidated group, we created an total of some 12,000 new jobs. Contributing factors were the agreements between employees and management to secure jobs, which enable us to reduce labor costs and to increase flexibility and efficiency in allocating labor. Additional employees were needed due to the favorable business developments in the Passenger Car, Commercial Vehicle and Services divisions above all. At Dasa it was chiefly the expansion of capacity in the Airbus program that helped stabilize the employment situation; when comparably calculated, employment levels in the Directly Managed Businesses rose slightly as compared to the previous year.



Cooperation with Suppliers Intensified

In 1997 the Daimler-Benz Group purchased goods and services worldwide valued at DM 78.0 billion (1996: DM 66.9 billion).

We continued to make progress in opening nw ways for global sourcing in 1997. Our intention is to better utilize potentials for reducing costs while at the same time reducing the Group's foreign currency exposure.

As an independent effort, the close cooperation with our German suppliers continues to be a high priority for us; their product quality, innovative capability, and reliability in terms of processing and supply are indispensable to us. In the context of the "Tandem Cooperation Concept", which we are now applying more intensively to our overseas sourcing, we are continuing to expand our cooperation with the supplier industry. The improvements in quality and costs made possible by these measures are instrumental in permanently strengthening our competitive position.

Capital Expenditures Significantly Increased

Investments in property, plant and equipment (excluding the effects of first-time consolidations) increased throughout the Group to DM 6.9 billion in 1997 (1996: DM 6.2 billion).

In the Passenger Car Division, our product drive as well as structural improvements in production and development required capital investments of DM 3.7 billion (1996: DM 2.9 billion). Expenditures in Germany concerned preparations for production of the A-Class and the next-generation S-Class, new engines, paint technology developments, and the Development and Preparation Center (EVZ) in Sindelfingen. Important projects abroad were the preparations for launching the M-Class in Tuscaloosa, Alabama (USA) and the production of the A-Class in Brazil.

The investments in the Commercial Vehicles Division of DM 1.2 billion (1996: 1.6 billion) were primarily related to plant modernization projects, the Actros and Atego product projects, and investments in connection with the acquisition of the heavy truck line from Ford in North America.

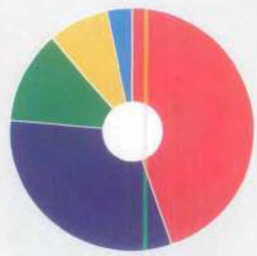
In the Aerospace Division we spent DM 0.5 billion (1996: DM 0.6 billion) on investments, with emphasis on ramping up production capacities in the Airbus program. The investments in the Services Division, which rose to DM 0.4 billion (1996: DM 0.2 billion) were primarily allocated to the IT Services unit. The Directly Managed Businesses invested a total of DM 0.5 billion (1996: DM 0.5 billion). Corresponding to construction progress, capital investments in the Potsdamer Platz real estate project rose to DM 0.8 billion (1996: DM 0.4 billion).

Because of continued growth in the leasing business, additions to leased equipment in the amount of DM 7.6 billion were significantly higher than the previous year (DM 6.1 billion).

DM 9.8 Billion Spent on Research and Development

Worldwide more than 29,000 persons were employed in research and development of the Daimler-Benz Group in 1997. Research and development expenses rose to a total of DM 9.8 billion (1996: DM 8.8 billion). Of that amount, DM 4.1 billion (1996: DM 3.3 billion) was spent on projects commissioned by third parties. New forms of interdisciplinary cooperation and the increased involvement of the supplier industry made it possible to improve efficiency of fund utilization in our research and development units throughout the Group.

Research and Development Expenditure
DM 9.8 Billion (1996: DM 8.8 Billion)



	97 in %	96 in %
Passenger Cars	31.8	32.9
Commercial Vehicles	12.1	12.3
Aerospace	44.8	41.6
Directly Managed Businesses	8.0	9.2
Headquarters/Others	3.3	4.0

A major part of the funds invested in our own projects was once again used to secure the future of the automotive business. We spent DM 3.1 billion (1996: DM 2.9 billion) in the Passenger Car Division and DM 1.2 billion (1996: DM 1.1 billion) in our Commercial Vehicles Division. Important automobile projects were the new S-Class, the CLK convertible, and work on new engine series. In the Commercial Vehicles Division, the emphasis of development activities was on the Atego light truck series, the Actros trucks for construction and special applications, and the Citaro city bus.

Of the total of DM 4.4 billion (1996: DM 3.7 billion) spent on research and development in the Aerospace Division, projects totaling DM 3.7 billion (1996: DM 3.0 billion) were commissioned by third parties. The focus continued to be on expanding the Airbus program with new versions, on the Eurofighter, and on new engines. Research and development expenditures in the Space Systems Infrastructure and Satellites units, which reached a total of nearly DM 2.2 billion in 1997, chiefly concerned third party contracts.

In the Directly Managed Businesses, expenditures for research and development projects included DM 0.4 billion at Adtranz (1996: DM 0.3 billion), DM 0.3 billion in the Microelectronics unit (1996: DM 0.3 billion), and DM 0.1 billion in the Diesel Engines unit (1996: DM 0.1 billion).

Essential projects relating to the Diesel Engines unit included natural gas and in-line engines based on the 4000 series; in addition, development started on the large medium-speed "Mega" engine. In the Automotive Electronics unit at TEMIC the focus was on the new and continuing development of electronic vehicle and security components. At Adtranz, activities centered on the next generation of super-high-speed trains, rail guidance systems, and a new concept for an automated elevated rail system in the USA.

Earning Power Strengthened

Including other income, the total earnings of the group grew by 17% in 1997 and reached DM 125.7 billion.

At the same time, cost of sales also grew by 17%, and selling, administrative and other expenses rose by 9%. The share of these two cost factors in revenues thus declined from 95% in the previous year to less than 94%.

The funds expended for the Group's own research and development projects increased by DM 0.1 billion to DM 5.7 billion; their share in revenues remained unchanged at 5%.

Consolidated Statements of Income

DM in millions	*1997*	1996
Revenues	*124,050*	106,339
Cost of sales	*(98,943)*	(84,742)
Selling, adminstrative and other expenses	*(17,433)*	(15,955)
Research and development	*(5,663)*	(5,579)
Other income	*1,620*	1,402
Income before financial income and income taxes	*3,631*	1,465
Financial income, net	*618*	496
Income before income taxes	*4,249*	1,961
Income taxes	*3,982*	712
Minority interest	*(189)*	89
Net income	*8,042*	2,762
Net income excluding non-recurring tax benefits	*3,172*	–

Major factors in the rise of operating profit from DM 2.4 billion to DM 4.3 billion included our new vehicle products, the streamlining of the Group's portfolio, cost reduction programs implemented in all business units, and significantly improved exchange rates as compared to the previous year. Encumbering effects came once again from restructuring expenses and from the high investments needed for the product drive in the automotive sector. The technical optimization and temporary suspension of deliveries in the A-Class as well as the postponement of the market introduction of the smart city coupe resulted in expenses totaling DM 0.4 billion in 1997. In the Aerospace Division charges of DM 0.7 billion were related to the early repayment of development subsidies to the Federal Republic of Germany. However, this repayment was partly compensated by the release of therefore set up accrued liabilities. A positive influence, though, was a DM 0.2 billion gain from the sale of the Recognition and Sorting Systems. Comparing 1997 to the previous year it must also be kept in mind that the income statement of 1996 included special negative effects amounting to DM 1.1 billion.

The consolidated operating profit can be derived from the income before financial income and income taxes as reported in the income statements and shown in the table below.

Reconciliation to Operating Profit

DM in millions	*1997*	1996
Income before financial income and income taxes	*3,631*	1,465
Interest on advance payments received for long term contracts	*270*	303
Earnings from Airbus Industrie	*109*	267
Corporate research of Daimler-Benz AG	*316*	407
Items not allocable to segments	*2*	(19)
Operating Profit	*4,328*	2,423

The most important source of income continued to be the passenger car business (see table, page 60). The Commercial Vehicle and Aerospace Divisions both made significant positive contributions to the operating profit of the Group following losses in 1996. The Services Division increased its operating profit substantially. The operating loss from the Directly Managed Businesses declined significantly. In this segment the profits from the Microelectronics and Diesel Engines units were offset by a heavy loss in Rail Systems, primarily caused by the introduction of restructuring measures and an extraordinary write-down of goodwill.

Operating profit by region is illustrated in the following table.

Operating Profit by Region

DM in millions	*1997*	1996
Germany	*3,139*	1,755
Other European Countries	*75*	123
North America	*638*	440
Latin America	*195*	12
Asia	*254*	95
Other Countries	*27*	(2)
Daimler-Benz Group	*4,328*	2,423

Operating Profit, Capital Employed and Return on Investment[1] by Division

	Operating profit (DM in millions)		*Capital employed (annual average, DM in billions)*		*Return on investment (%)*	
	1997	1996	*1997*	1996	*1997*	1996
Passenger Cars	*3,132[2]*	3,090[2]	*14.5*	13.9	*21.5*	22.2
Commercial Vehicles	*481[2]*	(354)[2]	*12.1*	11.6	*4.0*	-3.1
Aerospace	*432*	(196)	*5.6*	5.7	*7.7*	-3.4
Services	*457*	288	*1.0[3]*	0.7[3]	*13.3[3]*	14.1[3]
Directly Managed Businesses	*(129)*	(585)	*5.5*	6.1	*-2.4*	-9.6
Daimler-Benz Group	*4,328*	2,423	*39.3[4]*	38.5[4]	*10.2[4]*	5.8[4]
Financial Services/ Insurance Brokerage and Trading			*2.4[5]*	2.0[5]	*13.4[5]*	10.0[5]

1) Operating profit/capital employed.
2) Consolidated operating profit of automotive business see page 100.
3) Excluding Financial Services/Insurance Brokerage and Trading.
4) Excluding Financial Services/Insurance Brokerage, Trading and Potsdamer Platz project.
5) Stockholders' equity, return on stockholders' equity.

Significant Increase in Yield

Return on capital employed for the consolidated group, calculated as the quotient of operating profit to annual average of capital employed for operating purposes, rose to 10.2% in 1997 (1996: 5.8%). This brought us significantly closer to the .12% minimum yield we are targeting, debis' units Financial Services/Insurance Brokerage and Trading are not included here, because in accordance with industry practice we use stockholders' equity as a standard for measuring the operating profit in these units rather than capital employed. In these businesses we target a minimum yield of 14%.

The returns on capital employed/stockholders' equity that are crucial for controlling our divisions developed as shown in the above table.

We determine capital employed for operations on the basis of US-GAAP book values. The opposite table shows how these figures are derived from the Group.

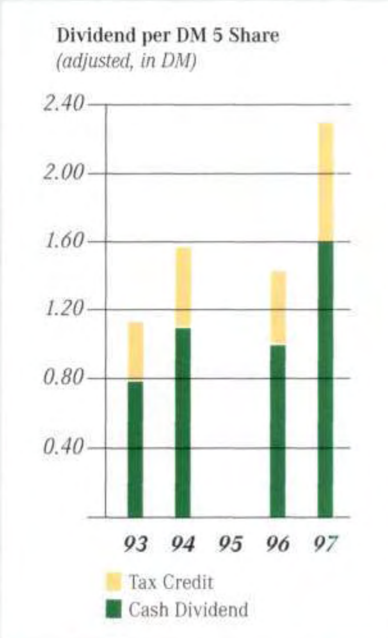
Consolidated Capital Employed*)

DM in billions	1997
Intangible assets	1.7
Property plant and equipment	18.8
Inventories	18.0
Raw materials and manufacturing supplies	3.2
Work in process	6.5
Finished products	8.0
Advance payments to suppliers	0.2
Trade receivables	13.9
Other receivables and assets	5.3
Total operating assets	57.7
Accounts payable trade	(10.8)
Other liabilities	(1.3)
Advance payments received	(2.8)
Liabilities from current business	(1.8)
Valuation reserve items for operating assets	(0.7)
Consolidated capital employed	40.3

*) Year-end values excluding Financial Services/Insurance Brokerage, Trading and Potsdamer Platz (annual average value: DM 39,3 billion).

Financial Income Influenced by Exchange Rate Fluctuations

The financial income rose from DM 496 million in the preceding year to DM 618 million. Financial income include income from the sale of our share in Cap Gemini amounting DM 0.8 billion, which led to a significant increase in income from investments. Interest income was also higher than the previous year, whereas other financial income suffered from the devaluation of the German mark against important currencies. If it is not possible to assign direct allocation between currency hedging transactions and underlying operational transactions, Increase changes in value of the hedging contracts are recorded in the financial income; at settlement the respective underlying transactions are accounted for the operating profit at the current daily rates. The burden on financial results for 1997 caused by rising exchange rates thus represents a loss of potential profits resulting from the redemption of the currency hedging instruments. In 1997 the effects from hedging transactions that were not tied to the underlying transaction for accounting purposes and came due in 1997 impacted the financial results in the order of DM 0.7 billion. They were however neutralized by the more favorable settlement with respect to the corresponding underlying transactions in the operating profit.



Furthernore, the financial income included value adjustments amounting some DM 1.0 billion from market evaluation of currency hedging transactions not tied to the underlying business contract that had already been entered into in earlier years for the Aerospace Division in particular. Assuming the exchange rate remains unchanged from December 31, 1997, this would also result in corresponding higher revenues increasing the operating profit. In order to avoid fluctuations in financial income connected with such valuation adjustments, we have begun to allocate hedging contracts directly to the corresponding underlying transactions. If this procedure is used the operating profit is no longer effected by current daily rates, but by hedging rates.

Consolidated Net Income Continues to Improve

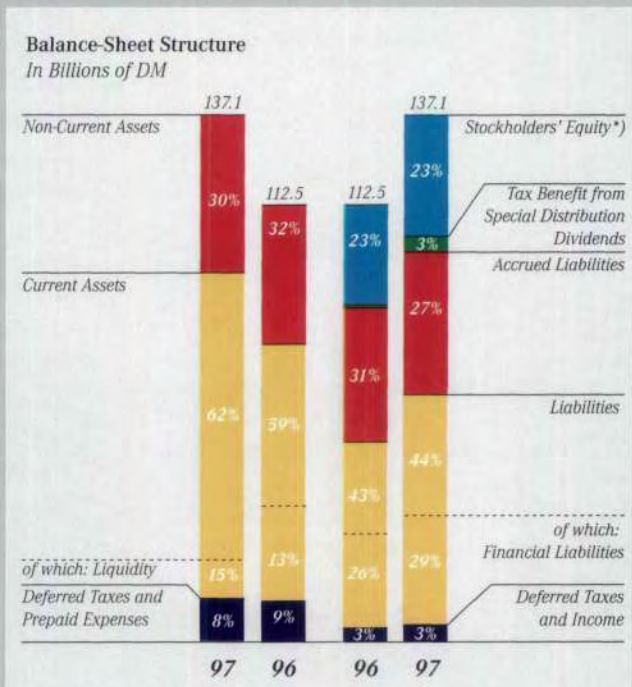
Net income according to U.S. GAAP increased from DM 2.8 billion to DM 8.0 billion in 1997. The marked increase was influenced by special tax effects in the amount of DM 4.9 billion. A tax benefit in the amount of DM 2.9 billion came about through the proposal to the stockholders that a special distribution should be made from the retained earnings of Daimler-Benz AG which were taxed at 50% in prior years. An additional tax benefit of DM 2.0 billion resulted from the fact that as of December 31, 1997 the write-off on the deferred tax assets of Daimler-Benz's German group of companies that file a combined tax return (Organschaft) had to be canceled. The deferred tax asset came about because according to U.S. GAAP expected tax reductions due to loss carryforwards had to be capitalised. Since it was not certain in the past whether and when the existing loss carryforward could be used, we took a write-off on the deferred tax asset. Now that it is foreseeable that Daimler-Benz will again be in a position to consistenty post positive results, there is no longer any need for this valuation adjustment. Excluding these special tax effects, net income would have amounted to DM 3.2 billion.

Dividend Increased to DM 1.60

For Daimler-Benz AG, which now also includes the domestic automotive business following the merger with Mercedes-Benz AG with retroactive effect as of January 1, 1997, the financial statements according to German accounting principles show a net income in the amount of DM 5.8 billion.

This includes the non-recurring tax benefit of DM 2.9 billion relating to the special distribution salready mentioned earlier.

Due to the gratifying development of earnings, we propose to raise shareholders' dividend for 1997 to DM 1.60 (1996: DM 1.10) per DM 5.00 par value share. Since capital entitled to dividends equals DM 2,584 million, the amount of the distribution is increased to DM 827 million (1996: DM 567 million).



*) Excluding tax benefit of DM 2.9 billion resulting from the special distribution in 1997 and dividends paid for 1996 (DM 0.6 billion) and for 1997 (DM 0.8 billion).

Special Distribution of 20 DM Per Share

German income law prescribes that as of the end of 1998 retained earnings taxed at a rate of 50% (known as EK 50) have to be reclassified as stockholders' equity subject to a tax rate of 45% (EK 45). Therfore we propose to our shareholders a special distribution of DM 20 per share. This distribution will be paid out of retained earnings of Daimler-Benz AG that were primarily generated in the highly profitable 1980s in the amount of DM 7.4 billion. As a result of this distribution, the corporate income tax paid in the past by the Company is reduced from 50% to 30%. The resulting DM 2.9 billion tax reduction will be passed along to the shareholders and is included in total distribution of DM 10.3 billion.

Some of the taxes yet paid by the Company in the amount of 30% will be passed along to German shareholders as a tax credit. German shareholders are now wholly liable for the tax on retained earnings for which the Company was formerly responsible. In the years to come passing on equivalent total tax amounts to shareholders would entail a significantly higher withdrawal from retained earnings.

After the special distribution, stockholders' equity of Daimler-Benz is to be returned to the level prior to the distribution by means of increase in capital stock in order of DM 7.4 billion.

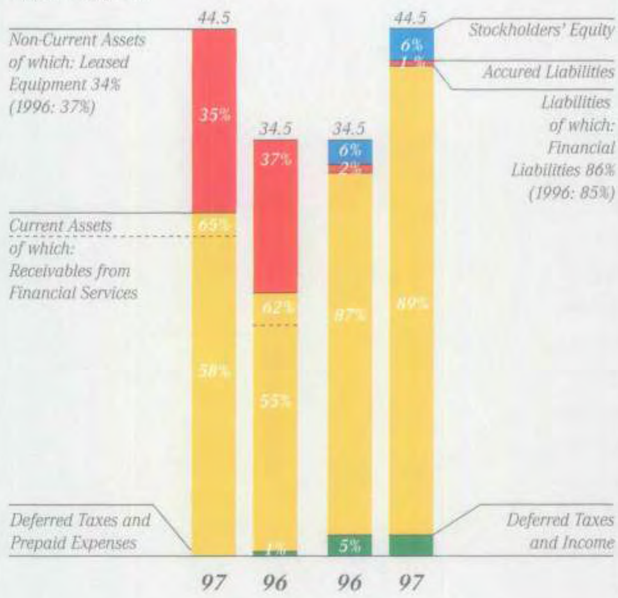
Balance Sheet Figures Increase Markedly

The balance sheet total of the Daimler-Benz Group at December 31, 1997 increased by DM 24.6 billion as compared to year-end 1996 to DM 137.1 billion. In addition to the appreciation of important currencies against the German mark and the resulting upward revaluation of our foreign assets in DM-terms, the substantial increase in the balance sheet total is due primarily to the expansion of the leasing and sales financing business. On the assets side, therefore, leased equipment and financial services receivables rose by DM 3.0 billion and DM 6.9 billion, respectively, or by nearly DM 10 billion together. This increase is offset on the liabilities side by financial obligations that are DM 10.5 billion higher than the previous year.

Again on the assets side, fixed assets grew by 15% to DM 41 billion. In addition to growth in leased equipment, another decisive factor was the higher figure for property, plant, and equipment, which above all due to our investments in the automotive business and in the Potsdamer Platz project was DM 2.4 billion higher than in 1996.

Inventories are reported at DM 14.4 billion - less advance payments received in the amount of DM 5.0 billion (1996: DM 5.0 billion). Their share in the balance sheet total declined from 12% to 10%. The DM 0.8 billion increase is essentially related to the higher overall production volume and to product startups in the automotive business. Trade receivables and other receivables increased by a combined total of DM 4.4 billion to DM 24.3 billion. Significant rise in other receivables is mainly due to the tax claim against the tax authorities in the amount of DM 2.9 billion related to the planned special distribution. Liquid funds which contain the items cash and cash equivalents, securities and the fixed-interest debt instruments reported under other receivables, totaled DM 21.2 billion, more than DM 6.3 billion higher than at year-end 1996.

As explained above in the remarks on net income, the increase in deferred taxes is primarily a result of the release of the write-off on deferred tax assets.



Balance-Sheet Structure of the Financial Services Business

On the liabilities side of the consolidated balance sheet, stockholders' equity grew by DM 5.5 billion to DM 31.4 billion (excluding the tax benefit in the amount of DM 2.9 billion and adjusted for dividend payments of DM 0.8 billion for 1997 and DM 0.6 billion for 1996). Including the retained earnings of DM 7.4 billion that will be paid out to shareholders as part of the special distribution and which are to be restored to the Company by means of a subsequent capital increase, equity ratio remained unchanged at 23%. Without consideration of the financial services businesses, the equity ratio was 31% (1996: 30%). The percentage of fixed assets covered by stockholders' equity improved from 72% to 77%.

The increase in accrued liabilities by DM 1.7 billion to DM 36.6 billion was lower than average. Pension provisions grew by DM 1.0 billion to DM 17.2 billion. Overall, the proportion of accrued liabilities in the balance sheet total declined to 27% (1996: 31%).

Financial liabilities increased at an above-average rate once again and reached DM 39.3 billion (1996: DM 28.9 billion). DM 29.4 billion, about three quarters of the financial liabilities, are tied up in the financial services business. The share of the financial liabilities in total capital is now 29% (1996: 26%).

Both, fixed assets (excluding financial services) and net inventories continued to be covered by stockholders' equity and by long term and medium term accrued liabilities.

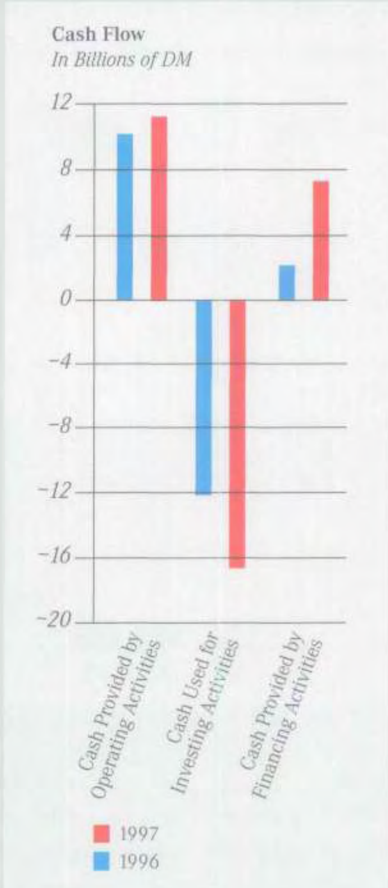
Vigorous Growth in Financial Services Business

To make the special influence of the financial services business on the structure of the consolidated balance sheet more intelligible, a consolidated statement of income, a balance sheet, and a cash flow statement of our financial services activities are reproduced on pages 68 to 70. 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 performed 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 other units within the Group; they have a corresponding effect on the statements of income and the balance sheets. For example, our financial services companies are not only financed by borrowing from third parties, but also with funds from the Daimler-Benz Group. From the perspective of the financial services business, these intercompany loans 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, interest on these loans reduces operating profit of the financial services sector, while from the perspective of the Daimler-Benz Group these interest charges are offset against interest income earned by organizational units that grant these intercompany loans to the financial services companies.

The operating profit reported in the separate statement of income for the financial services business (page 68) is DM 402 million. In this respect it should be taken into consideration that the separate statement of income predominantly reflects the financial services business of debis, but not exclusively; to a lesser extent it also encompasses the financial services activities of other divisions in the Daimler-Benz Group. In addition, the operating profit does not contain any administrative cost allocations for the central offices of Daimler-Benz and debis. The steep rise in the operating profit from DM 264 million to DM 402 million is above all a result of growth in new business of German companies and in the USA.

On the whole, the balance sheet total of the financial services business increased by DM 10.0 billion to DM 44.5 billion as compared to year-end 1996. On the assets side, leased equipment rose from DM 2.3 billion to DM 15.1 billion and receivables from financial services from DM 6.9 billion to DM 26.0 billion. Significant expansion of business was financed by financial liabilities, which at DM 38.4 billion were DM 9.2 billion higher than in 1996 and which represent 86% of the balance sheet total. Stockholders' equity used in the financial services business was relatively low in comparison to the industrial business and amounted to DM 2.6 billion at year-end; as in the previous year it represents 6% of the balance sheet total.



Cash Flow from Operating Activities Continues to Rise

Cash flow from operating activities grew by DM 1.0 billion to DM 11.2 billion adjusted for changes in the consolidated group and currency effects. This favorable development was a result of the improved financial results (before non-cash expenses and income), which more than compensated for the lower decline in working capital as compared to 1996. Cash flow from investment activities in the amount of DM 16.6 billion (1996: DM 12.2 billion) was still defined by the growing leasing and sales financing business. At DM 7.6 billion (1996: DM 6.1 billion), roughly one half of gross investment was allocated to additions to equipment in operating lease; moreover, there was a net increase in sales financing receivables of DM 5.5 billion (1996: DM 3.1 billion). Subsidiaries and affiliated companies developed in the opposite direction: proceeds from the disposal of businesses totaling DM 2.6 billion (1996: DM 1.1 billion) were offset by significantly lower payments for acquisitions of businesses at DM 1.2 billion (1996: DM 0.5 billion). Cash flow from financing activities rose by DM 5.1 billion to DM 7.3 billion and was largely determined by higher net borrowing at DM 7.7 billion (1996: DM 1.9 billion). Overall, development of individual cash flows led to a DM 2.3 billion increase in cash (due in less than 3 months) and to a DM 6.3 billion increase in liquid assets.

Financial Instruments Expanded

Refinancing needs of the group are marked by continuing growth of the financial services business above all as well as by the increasing globalization of Daimler-Benz. In order to optimize cost of capital we primarily cover our financial needs through international money and capital markets. To make our acquisition of funds more flexible we revised the Euro Medium Term Note program and designated Daimler-Benz Coordination Center S.A., Brussels, and Daimler-Benz (Australia) Pty. Ltd. as new issuing addresses.

In May 1997 we launched a bond issue with mandatory conversion with a total volume of some DM 1 billion, making us the first European company to issue convertible bonds that will not be redeemed at maturity but will automatically be converted to stock. With this capital market instrument we succeeded in tapping new groups of investors who are looking for a combination of growth potential and safe, ongoing returns.

Conversely, in the emerging market regions, which have inadequately developed capital markets but where our business volume and the need for refinancing are growing rapidly, we are taking increasing recourse to local bank financing.

In 1997 we again used the instrument of asset backed securities, thereby limiting the growth of indebtedness for the Group.

Credit Rating at a High Level

The international agencies Moody's Investors Services and Standard & Poor's rate Daimler-Benz AG both for short term and for long term borrowing. The ratings awarded by the two agencies, A1 and A+ in the long-term category and Prime-1 and A-1 in the short term category, are on a high level within an international context. The Prime-1 short term rating assigned by Moody's is in fact the best of the categories available. Since Daimler-Benz AG guarantees bonds issued by companies within the group, they, too, profit from the high credit ranking.

Active Interest Management

With consideration both of the ability of the Group to pay at any time and of an optimization of yield, liquid funds of the Group are invested partly in the money market and to a larger extent in the capital market. Asset allocation between the two types of investments forms the basis of our interest management.

Investments in the capital market are controlled by an established risk limit, calculated according to the value-at-risk method. Using the instruments of modern portfolio management, we invest liquid funds in fixed-interest securities and stocks.

As a rule, derivative instruments are not used for trading purposes, but only to hedge against market risks in asset and foreign currency management. We engage in financial trade transactions only with banks of first-class ratings. We use a central front-end system in the Group Treasury for continuous determination and monitoring of holdings, market values and results.

In conformity with the BIZ guidelines on risk management for banks, the trading units are separated organizationally, physically, and in terms of system technology from the functions of transaction processing, financial accounting, and financial controlling.

Exchange Rate Risks Reduced by Hedging

International orientation of business activities in the Daimler-Benz Group results in flows of deliveries and payments of various currencies. Since the exports from Germany exceed the import flows and value added in other currencies, the Company is exposed to currency exchange risks. Net exposure, derived from offsetting exports against imports in individual currencies, is registered regularly by the Group Treasury and hedged with appropriate financial instruments on the basis of our continuously updated currency expectations. While the proportion of anticipated payment flows covered by hedging contracts is relatively high for the near future, it declines steadily for the subsequent years. As a result there is an increase in the risks and opportunities that may result from changes in the exchange rates.

The table at page *66* shows for the reference date December 31, 1997 the effects that a hypothetical 10% upward valuation of the German mark would have on cash flow before taxes of the Daimler-Benz Group for the years 1998 and 1999, thereby considering existing exchange rate hedging contracts.

Exchange Rate Sensitivities 1998

DM in billions	USD	JPY	GBP	FRF[1]	ITL[1]	Others[1]	Total[1]
Currency inflows	17.7	3.4	4.0	3.1	3.5	7.6	39.3
Currency outflows	6.5	0.4	0.4	0.6	0.3	3.0	11.1
Net currency exposure	11.2	3.0	3.6	2.5	3.2	4.6	28.2
Effects from a 10% appreciation of DM after hedging[2]	0.21	0.09	0.08	0.04	0.06	0.06	0.54

Exchange Rate Sensitivities 1999

DM in billions	USD	JPY	GBP	FRF[1]	ITL[1]	Others[1]	Total[1]
Currency inflows	20.1	4.1	4.5	3.3	3.5	7.4	42.9
Currency outflows	8.2	0.4	0.4	0.6	0.3	3.7	13.5
Net currency exposure	11.9	3.7	4.1	2.7	3,2	3.8	29.4
Effects from a 10% appreciation of DM after hedging[2]	0.77	0.32	0.24	0.09	0.29	0.50	2.21

1) The net exposure of the Group in currencies of EU member states expected to participate in the single European currency amounts to approximately DM 8.0 billion (1998) and DM 8.2 billion (1999).

2) On cash flow before taxes of the Group in consideration of existing hedging contracts.

Intensive Preparation for the Euro

Because of our global business orientation we see definite opportunities in the introduction of the Euro. We will introduce the Euro throughout the Group as our "house currency" as early as January 1, 1999 and at the same time replace the German mark as the accounting unit for all business activities. We intend to produce the report for the first half of 1999 on the basis of the Euro.

The non-recurring costs of the conversion will be in the order of more than DM 200 million. But this will be offset over the long term by annual savings amounting to around DM 100 million because of lower transaction and exchange rate hedging costs.

Adaptation to the Year 2000

The adaptation to the year 2000 involves certain problems for individual computing systems. To ensure a smooth transition to the new millennium, all systems in use in the Daimler-Benz Group are being reviewed and modified or replaced as needed. In addition, we are in close contact with our suppliers and sales partners to identify and correct early on potential data processing problems that could effect our business processes at the turn of the millennium. We are supported by our Information Technology Services unit, which is also generating a great deal of business from external customers. We expect that the costs for adapting our data processing systems will not have a major impact on the Group's profit developement.

Risks for Further Developments

Daimler-Benz, an international company, presented by a wide product range on various markets, has to face numerous risks. Wihin this chapter we described methologies and instruments, including our hedging activities, that are used to reduce risks of interest and currency developments. Through spreading activities of supply, we attempt to reduce risks of international supplying markets. The company's development might also be effected by turbulences of economic cycles in important selling markets and will depend on market acceptence of our product and service portfolio. In particular, focused strengths and promotion on innovative forces are our endeavors, in order to offer competitive products and services of special value to our customers.

Events after the End of Fiscal 1997

Beyond the developments already described there are no occurrences sofar that are of major significance for the Group or could lead to a change in the assessment of the Company. The course of business in the first months of 1998 confirms the statements made in the "Outlook" chapter.

Statement of the Board of Management

The Board of Management of Daimler-Benz AG is responsible for preparing the consolidated financial statements of 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 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. It 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

To 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, 1997 and 1996, and the related consolidated statements of income, cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 1997. 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 financial statements referred to above present fairly, in all material respects, the financial position of Daimler-Benz as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with United States generally accepted accounting principles.

Frankfurt am Main, March 17, 1998
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zielke
Wirtschaftsprüfer

Schmid
Wirtschaftsprüfer

Consolidated Statements of Income

in millions of DM, except per share amounts	Note	Consolidated			Financial Services		
		1997	1996	1995	*1997*	1996	1995
Revenues	24	*124,050*	106,339	102,985	*9,499*	8,379	7,661
Cost of sales	4	*(98,943)*	(84,742)	(86,686)	*(8,650)*	(7,752)	(7,239)
Gross margin		*25,107*	21,597	16,299	*849*	627	422
Selling, administrative and other expenses	4	*(17,433)*	(15,955)	(20,834)	*(608)*	(476)	(366)
Research and development		*(5,663)*	(5,579)	(5,369)	*0*	0	0
Other income		*1,620*	1,402	1,742	*161*	113	89
Income (Loss) before financial income and income taxes		*3,631*	1,465	(8,162)	*402*[1]	264[1]	145[1]
Financial income, net	5	*618*	496	929	*7*	.	8
Income (Loss) before income taxes		*4,249*	1,961	(7,233)	*409*	264	153
Tax benefit relating to a special distribution		*2,908*[2]					
Income taxes		*1,074*[3]					
Total income taxes	6	*3,982*	712	1,620	*(210)*	(127)	(82)
Minority interest		*(189)*	89	(116)	*(1)*	(4)	2
Net income (loss)		*8,042*[4]	2,762	(5,729)	*198*	133	73
Earnings per share (in DM)							
Basic earnings (loss) per share	25	*15.59*[4]	5.37	(11.17)	–	–	–
Diluted earnings (loss) per share	25	*15.30*[4]	5.35	(11.17)	–	–	–

1) Equal to the operating profit of the Group's Financial Services.
2) Reflects the tax benefit relating to a special distribution of DM 20.00 per share.
3) Includes non-recurring tax benefits of DM 1,962 relating to the decrease in valuation allowance as of December 31, 1997, applied to the domestic operations that file a combined tax return.
4) Excluding the non-recurring benefits, 1997 net income would have been DM 3,172 and basic and diluted earnings per share would have been DM 6.15 and DM 6.08, respectively.

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

Consolidated Balance Sheets

in millions of DM Assets	Note	Consolidated December 31, 1997	 December 31, 1996	Financial Services December 31, 1997	 December 31, 1996
Intangible assets	7	*1,915*	1,951	*100*	80
Property, plant and equipment, net	7	*20,656*	18,225	*76*	57
Investments and long-term financial assets	13	*3,453*	3,536	*205*	60
Equipment on operating leases, net	8	*14,931*	11,941	*15,055*	12,748
Fixed assets		*40,955*	35,653	*15,436*	12,945
Inventories	9	*14,390*	13,602	*988*	645
Trade receivables	10	*12,006*	10,864	*373*	382
Receivables from financial services	11	*25,924*	19,052	*25,953*	19,073
Other receivables	12	*12,251*[1]	8,959	*897*	826
Securities	13	*14,687*	9,783	*91*	92
Cash and cash equivalents	14	*5,833*	4,557	*684*	269
Current assets		*85,091*	66,817	*28,986*	21,287
Deferred taxes	6	*10,462*	9,603	*27*	162
Prepaid expenses		*591*	388	*81*	65
Total assets		*137,099*	112,461	*44,530*	34,459
Liabilities and stockholders' equity					
Capital stock		*2,584*	2,577		
Additional paid-in capital		*5,247*	5,080		
Retained earnings		*26,508*[1]	19,033		
Other equity		*746*	(297)		
Stockholders' equity	16	*35,085*	26,393	*2,642*	2,094
Minority interest		*1,170*	936	*55*	52
Accrued liabilities	17	*36,618*	34,886	*576*	523
Financial liabilities	18	*39,302*	28,850	*38,383*	29,171
Trade liabilities	19	*11,079*	9,027	*176*	132
Other liabilities	20	*10,116*	8,792	*901*	800
Liabilities		*60,497*	46,669	*39,460*	30,103
Deferred taxes	6	*2,003*	2,253	*1,345*	1,244
Deferred income		*1,726*	1,324	*452*	443
Total liabilities and stockholders' equity		*137,099*	112,461	*44,530*	34,459

1) Includes a tax receivable/tax benefit of approximately DM 2.9 billion relating to the special distribution of DM 20 per share.

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

Consolidated Statements of Cash Flows

	Consolidated			Financial Services	
in millions of DM	*1997*	1996	1995	*1997*	1996
Net income (loss)	*8,042*	2,762	(5,729)	*198*	133
Income (Loss) applicable to minority interest	*189*	(89)	116	*1*	4
Adjustments to reconcile net income to net cash provided by operating activities:					
Tax benefit relating to a special distribution	*(2,908)*	–	–	–	–
Gain on disposal of businesses	*(1,113)*	(217)	–	–	–
Depreciation and amortization of equipment on operating leases	*2,323*	2,018	2,444	*2,467*	2,198
Depreciation and amortization of fixed assets	*5,198*	4,908	8,661	*52*	45
Change in deferred taxes	*(1,787)*	(1,572)	(2,566)	*167*	(24)
Change in financial instruments	*455*	392	(77)	–	3
(Gain) loss on disposal of fixed assets/securities	*(685)*	(315)	28	*25*	.
Change in trading securities	*(756)*	(335)	44	–	–
Change in accrued liabilities	*1,730*	876	3,417	*26*	39
Change in current assets and liabilities:					
- inventories, net	*(385)*	(13)	(1,505)	*(274)*	(96)
- trade receivables	*(894)*	35	(262)	*47*	7
- trade payables	*1,691*	967	728	*45*	(59)
- other assets and liabilities	*142*	786	156	*(73)*	(279)
Cash provided by operating activities	*11,242*	10,203	5,455	*2,681*	1,971
Purchase of fixed assets:					
- Increase in equipment on operating leases	*(7,608)*	(6,101)	(5,205)	*(6,977)*	(6,171)
- Purchase of property, plant and equipment	*(6,942)*	(6,212)	(4,850)	*(47)*	(24)
- Purchase of other fixed assets	*(516)*	(421)	(544)	*(74)*	(26)
Proceeds from disposal of equipment on operating leases	*3,840*	2,537	2,369	*3,401*	3,339
Proceeds from disposal of fixed assets	*996*	976	1,086	*41*	11
Payment for acquisition of businesses	*(1,187)*	(462)	(2,162)	*(125)*	(162)
Proceeds from disposal of businesses	*2,613*	1,107	15	–	215
Acquisitions of securities (other than trading)	*(5,322)*	(1,319)	(928)	.	(9)
Proceeds from sales of securities (other than trading)	*1,677*	1,126	337	*2*	
Additions to receivables from financial services	*(15,761)*	(10,697)	(7,880)	*(15,755)*	(10,718)
Repayments of receivables from financial services	*10,273*	7,572	5,778	*10,273*	7,572
Change in other cash	*1,342*	(260)	1,242	*24*	9
Cash used for investing activities	*(16,595)*	(12,154)	(10,742)	*(9,237)*	(5,964)
Change in commercial paper borrowings and short-term financial liabilities	*2,399*	4,915	2,932	*2,208*	2,221
Additions to long-term financial liabilities	*7,572*	2,678	1,521	*6,668*	4,322
Repayment of financial liabilities	*(2,262)*	(5,675)	(1,687)	*(2,013)*	(2,838)
Dividends paid (Financial Services: incl. profit transferred from subsidiaries)	*(579)*	(10)	(580)	*(240)*	(362)
Proceeds from capital increases	*201*	294	97	*344*	486
Cash provided by financing activities	*7,331*	2,202	2,283	*6,967*	3,829
Effect of foreign exchange rate changes on cash and cash equivalents up to 3 months	*293*	101	(143)	*7*	4
Net increase (decrease) in cash and cash equivalents up to 3 months	*2,271*	352	(3,147)	*418*	(160)
Cash and cash equivalents (up to 3 months):					
At beginning of period	*3,220*	2,868	6,015	*262*	422
At end of period	*5,491*	3,220	2,868	*680*	262

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

Consolidated Statements of Changes in Stockholders' Equity

in millions of DM, except per share amounts	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 (DM 1.10 per share)	–	–	(564)	–	–	(564)
Net loss	–	–	(5,729)	–	–	(5,729)
Issuance of capital stock	3	44	–	–	–	47
Currency translation	–	–	–	(449)	–	(449)
Unrealized gain on available-for-sale securities	–	–	–	–	120	120
Balance at December 31, 1995	*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 available-for-sale securities	–	–	–	–	107	107
Balance at December 31, 1996	*2,577*	*5,080*	*19,033*	*(516)*	*219*	*26,393*
Dividends paid (DM 1.10 per share)	–	–	(567)	–	–	(567)
Net income	–	–	8,042	–	–	8,042
Issuance of capital stock	7	167	–	–	–	174
Currency translation	–	–	–	752	–	752
Unrealized gain on available-for-sale securities	–	–	–	–	291	291
Balance at December 31, 1997	*2,584*	*5,247*	*26,508*	*236*	*510*	*35,085*

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

Consolidated Fixed Assets Schedule

in millions of DM	Balance at January 1, 1997	Currency change	Acquisitions/ disposals of businesses	Additions	Reclassi-fications	Disposals	Balance at December 31, 1997
	Acquisition or Manufacturing Costs						
Other intangible assets	*899*	25	7	247	11	153	*1,036*
Goodwill	*2,328*	25	(281)	397	.	58	*2,411*
Intangible assets	*3,227*	50	(274)	644	11	211	*3,447*
Land, leasehold improvements and buildings including buildings on land owned by others	*20,960*	187	44	972	804	516	*22,451*
Technical equipment and machinery	*25,535*	99	159	2,331	1,097	1,660	*27,561*
Other equipment, factory and office equipment	*15,625*	137	(15)	1,888	300	1,495	*16,440*
Advance payments relating to plant and equipment and construction in progress	*3,111*	108	(4)	2,081	(2,220)	152	*2,924*
Property, plant and equipment	*65,231*	531	184	7,272	(19)	3,823	*69,376*
Investments in affiliated companies	*898*	4	(16)	311	(7)	381	*809*
Loans to associated and affiliated companies	*23*	.	0	138	1	160	*2*
Investments in associated companies	*1,319*	2	22	48	0	1,134	*257*
Investments in related companies	*1,037*	26	2	466	7	154	*1,384*
Loans to associated and related companies	*180*	0	.	1	.	81	*100*
Long-term securities	*752*	3	.	384	0	116	*1,023*
Other loans	*730*	1	.	125	.	124	*732*
Investments and long-term financial assets	*4,939*	36	8	1,473	1	2,150	*4,307*
	73,397	617	(82)	9,389	(7)	6,184	*77,130*
Leased equipment[2]	*15,201*	1,560	5	7,608	7	5,426	*18,955*

1) Currency translation changes with period end rates.
2) Excluding initial direct costs. See Note 8.

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

Depreciation/Amortization							Book Value[1]	
Balance at January 1, 1997	Currency change	Acquisitions/ disposals of businesses	Additions	Reclassi- fications	Disposals	*Balance at December 31, 1997*	*Balance at December 31, 1997*	Balance at December 31, 1996
560	12	7	160	8	80	*667*	*369*	339
716	8	(125)	299	.	33	*865*	*1,546*	1,612
1,276	20	(118)	459	8	113	*1,532*	*1,915*	1,951
12,407	61	30	780	(47)	270	*12,961*	*9,490*	8,553
21,591	48	144	2,104	38	1,578	*22,347*	*5,214*	3,944
13,000	86	(9)	1,698	(5)	1,360	*13,410*	*3,030*	2,625
8	.	0	2	(1)	7	*2*	*2,922*	3,103
47,006	195	165	4,584	(15)	3,215	*48,720*	*20,656*	18,225
186	1	0	29	0	54	*162*	*647*	712
2	.	0	4	.	6	.	*2*	21
602	.	0	15	.	617	.	*257*	717
395	1	2	104	0	5	*497*	*887*	642
74	0	.	.	.	2	*72*	*28*	106
11	.	.	0	0	6	*5*	*1,018*	741
133	(1)	0	3	.	17	*118*	*614*	597
1,403	1	2	155	.	707	*854*	*3,453*	3,536
49,685	216	49	5,198	(7)	4,035	*51,106*	*26,024*	23,712
3,378	445	.	2,323	7	1,976	*4,177*	*14,778*	11,823

Basis of Presentation

1. 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 consolidation (see Note 2). All amounts herein are shown in millions of Deutsche Marks ("DM" or "marks").

Certain prior year amounts have been reclassified to conform to the 1997 presentation. Liabilities to affiliated companies and liabilities from capital lease and residual value guarantees have been reclassified to financial liabilities in the consolidated balance sheets. The consolidated statements of income have been reclassified to better conform to the Fourth and Seventh Directives of the European Community and in anticipation of the changes in German legal reporting requirements (Kapitalaufnahmeerleichterungsgesetz). These changes had no impact on reported results of operations or stockholders' equity.

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 consolidation (see Note 2). Other investments are accounted for at cost ("affiliated companies").

The Group accounts for its' business combinations under the purchase accounting method. As such all assets acquired and liabilities assumed are recorded at fair value. An excess of the purchase price over the fair value of net assets acquired is capitalized as goodwill and amortized over the estimated period of benefit on a straight-line basis.

The effects of intercompany transactions have been eliminated.

Foreign Currencies - Currency translation is based upon the Statement of Financial Accounting Standards (SFAS) 52 "Foreign Currency Translation", whereby the assets and liabilities of foreign subsidiaries where the functional currency is the local currency are generally translated using period end exchange rates while the income statements are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous periods are included as a separate component of stockholders' equity.

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 are determined using historical rates.

The exchange rates of the more important currencies used in preparation of the consolidated financial statements were as follows:

Currency:		Exchange rate[1] at December 31, 1997 DM	December 31, 1996 DM	Annual average exchange rate 1997 DM	1996 DM	1995 DM
Brazil	1 BRL	*1.61*	1.49	*1.61*	1.50	1.56
France	1FRF	*0.30*	0.30	*0.30*	0.29	0.29
Great Britain	1 GBP	*2.98*	2.63	*2.84*	2.35	2.26
Italy	1000 ITL	*1.02*	1.02	*1.02*	0.98	0.88
Japan	100 JPY	*1.38*	1.34	*1.44*	1.38	1.53
Spain	100 ESP	*1.18*	1.19	*1.18*	1.18	1.15
USA	1 USD	*1.79*	1.55	*1.73*	1.50	1.43

1) Official rates fixed at the Frankfurt Currency Exchange

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. Revenues also include proceeds from the sale of leased equipment.

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.

Earnings Per Share - Effective December 31, 1997, the Company adopted SFAS 128 "Earnings per Share". Accordingly, basic and diluted earnings (loss) per share for each year presented have been determined in accordance with the provisions of SFAS 128. Basic earnings (loss) per share has been calculated by dividing net income (loss) by the weighted average number of shares outstanding. Diluted earnings (loss) per share reflects the potential dilution that would occur if all securities and other contracts to issue common stock were exercised or converted (see Note 25). Net income (loss) represents the earnings (loss) of the Group after minority interests.

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 3 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 costs less accumulated depreciation. Depreciation expense is recognized using the declining balance method until the straight-line method yields larger expenses. Depreciation expense based exclusively on fiscal (tax) regulations is not recognized. The costs of internally produced equipment and facilities includes all direct costs and allocable manufacturing overhead. Costs of the construction of certain long-term assets include capitalized interest which is amortized over the estimated useful life of the related asset. The following useful lives are assumed: buildings - 17 to 50 years; site improvements - 8 to 20 years; technical equipment and machinery - 3 to 20 years; and other equipment, 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 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.

(in millions of DM, except per share amounts)

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 deferred income taxes. All other securities are recorded at cost. Unrealized losses on all marketable securities and investments that are other than temporary are recognized in earnings.

Inventories - 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 (FIFO). Certain of the Group's U.S. businesses' inventories are valued using the last-in, first-out method (LIFO). Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

Financial Instruments - Daimler-Benz uses derivative financial instruments for hedging purposes. Financial instruments, including derivatives (especially currency futures and currency options, security options, interest and currency swaps), 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. If there is a direct connection between a derivative financial instrument and an underlying transaction and a derivative is so designated, a valuation unit is formed. Once allocated, gains and losses from these valuation units, which are used to manage interest rate and currency risks of identifiable assets, liabilities, or firm commitments, do not affect income until the underlying transaction is realized (see Note 23 d).

Accrued Liabilities - The valuation of pension liabilities is based upon the projected unit credit method in accordance with SFAS 87 "Employers' Accounting for Pensions". An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. In determining other accrued liabilities - including warranties, contract costs and estimated future losses on open contracts - all applicable costs are taken into consideration including price increases. The effects of accrued liabilities relating to personnel and social costs are valued at their net present value where appropriate.

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.

Accounting Pronouncements Not Yet Applied - In June 1997, the Financial Accounting Standards Board issued SFAS 130 "Reporting Comprehensive Income" which is effective for fiscal years beginning after December 15, 1997. SFAS 130 requires that changes in the amounts of certain items, including foreign currency translation adjustments and gains and losses on certain securities be shown in the financial statements. SFAS 130 does not require a specific format for the financial statement in which comprehensive income is reported, but does require that an amount representing total comprehensive income be reported in that statement.

Also in June 1997, the Financial Accounting Standards Board issued SFAS 131 "Disclosures about Segments of an Enterprise and Related Information" which is effective for fiscal years beginning after December 15, 1997. The Statement provides guidance in the reporting of information about segments of an entity's business in annual and interim financial statements and also requires entity-wide disclosures about products and services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. The Company is in the process of determining the impact of SFAS 131 on its reported segments.

In February 1998, the Financial Accounting Standards Board issued SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". SFAS 132 amends the disclosure requirements of SFAS 87, SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pensions Plans and for Termination Benefits", and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". SFAS 132 standardizes the disclosure requirements of SFAS 87 and SFAS 106 to the extent practicable and recommends a parallel format for presenting information about pensions and other postretirement benefits. The Group will adopt the provisions of SFAS 132 in its 1998 consolidated financial statements.

2. Scope of Consolidation

Scope of Consolidation - Daimler-Benz comprises 300 foreign and domestic subsidiaries (1996: 297) and 92 joint ventures (1996: 82); the latter are generally accounted for on a pro rata basis. 12 subsidiaries are accounted for in the consolidated financial statements using the equity method of accounting. During 1997, 44 subsidiaries and 15 joint ventures were included in the consolidated financial statements for the first time. A total of 41 subsidiaries and 5 joint ventures left the consolidated group. Significant effects of changes in the consolidated group on the consolidated balance sheets and the consolidated statements of income are explained further in the notes to the consolidated financial statements. A total of 285 subsidiaries (1996: 315) are not consolidated as their combined influence on the financial position, results of operations, and cash flows of the Group is not material. The effect of such non-consolidated subsidiaries on the 1997 consolidated assets, revenues and net earnings of Daimler-Benz was less than 2%. In addition, 6 (1996: 10) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The consolidated financial statements include 122 associated companies. At December 31, 1997,11 associated companies are accounted for in the consolidated financial statements using the equity method of accounting. The remaining associated companies are recorded under investments in related companies in as much as these companies are not material for the respective presentation of the financial position, results of operations and cash flows of the Group.

Investment in Adtranz-In 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. As part of the formation of Adtranz, the Group and ABB 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's 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.

Since January 1, 1996 the Group accounts for its investment in Adtranz, including its 63 (1997: 71) subsidiaries, using the proportionate method of consolidation. Accordingly, Daimler-Benz reports its 50% 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 proportionate and equity methods would not affect 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 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 proportionate method are not material.

Balance sheet information:	At December 31,	
	1997	1996
Fixed assets[1]	*1,581*	1,766
Current assets	*1,840*	1,429
Total assets	*3,421*	3,195
Stockholder´s equity	*1,393*	1,374
Minority interest	*12*	13
Accrued liabilities	*970*	886
Liabilities	*1,046*	922
Stockholder´s equity and liabilities	*3,421*	3,195

1) Includes net goodwill resulting from the formation of Adtranz of DM 850 and 1,039 in 1997 and 1996, respectively.

(in millions of DM, except per share amounts)

Statement of operations information	Year ended December 31, 1997	1996
Revenues	*3,190*	2,835
Operating loss[1]	*(330)*	(16)
Net loss	*(302)*	(95)

1) The operating loss for 1997 includes an impairment charge on goodwill (DM 120); includes interest on advance payments received on long-term contracts (1997: DM 111; 1996: DM 122).

Cash flow information	Year ended December 31, 1997	1996
Cash flow from:		
– Operating activities	*141*	(452)
– Investing activities	*(24)*	125
– Financing activities	*(98)*	81
Effect of foreign exchange on cash	.	7
Change in cash (up to 3 months)	*19*	(239)
Cash (up to 3 months) at beginning of period	*285*	524
Cash (up to 3 months) at end of period	*304*	285

Cash up to 3 months includes DM 99 (1996: DM 116) held by Daimler-Benz AG in connection with internal 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 commercial 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 1996 operations of approximately DM 300 (1995: DM 1,600).

(b) In January 1996, Daimler-Benz announced that, effective immediately it would discontinue financial support for NV Koninklijke Nederlandse Vliegtuigenfabriek ("Fokker"), a 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 Aerospace 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 of 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.

(in millions of DM, except per share amounts)

During 1996, the aerospace industry experienced a significant increase in demand. As a consequence, higher production requirements resulted, especially for Daimler-Benz Aerospace Airbus GmbH, in a reduction of the provision made in 1995 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 in 1996 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.

In January 1997, Daimler-Benz sold its interests in AEG Electrocom GmbH and AEG ElectroCom International, Inc. (sorting and recognition systems) to Siemens AG resulting in a gain of DM 216.

In July 1997, debis AG, a subsidiary of Daimler-Benz AG, terminated its strategic relationship with Cap Gemini Sogeti S.A. through the sale of its 24.4% interest resulting in a gain of DM 822.

Notes to the Consolidated Statements of Income

4. Functional Costs and Other Expenses

Cost of sales includes materials expenses as follows:

	Year ended December 31,		
	1997	1996	1995
Cost of raw materials, supplies, and resale products	*58,245*	51,028	48,440
Cost of purchased services	*12,263*	9,844	11,770
	70,508	60,872	60,210

Selling, administrative and other expenses are comprised of the following:

	Year ended December 31,		
	1997	1996	1995
Selling expenses	*11,867*	10,401	10,507
Administration expenses	*3,567*	3,345	3,494
Expenses from reorganization of the Group	–	319	3,755
Goodwill amortization and writedowns	*299*	142	1,999
Other expenses	*1,700*	1,748	1,079
	17,433	15,955	20,834

Cost of sales and functional costs include other taxes of DM 198 (1996: DM 280; 1995: DM 241).

(in millions of DM, except per share amounts)

Expenses arising in 1996 and 1995 from the reorganization of the Group relate exclusively to Fokker and the restructuring of the former AEG-DBI (see Note 3). Other expenses primarily include charges not allocated to cost of sales, selling expenses, and administration expenses. In addition, expenses amounting to DM 721 related to the repayment of development cost subsidies were recorded under other expenses in 1997 (see Note 22).

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

	Year ended December 31, 1997	1996	1995
Wages and salaries	*24,021*	22,064	24,265
Social levies	*4,530*	4,003	4,493
Pensions cost (see Note 17 a)	*1,493*	1,564	1,613
Other expenses for pensions and retirements	*157*	178	201
	30,201	27,809	30,572

Number of employees (weighted annual average):

	Year ended December 31, 1997	1996	1995
Hourly employees	*165,104*	164,523	173,510
Salaried employees	*118,057*	115,041	135,217
Trainess/apprentices	*12,353*	11,704	12,495
	295,514	291,268	321,222

In 1997, 34,448 people (1996: 34,655 people; 1995: 12,365 people) were employed in joint venture companies.

In 1997, the total remuneration paid by Group companies to the members of the Board of Management of Daimler-Benz AG amounted to DM 20, and the remuneration paid to the members of the Supervisory Board of Daimler-Benz AG totaled DM 2. Additionally, the board subscribed for convertible bonds within the 1997 Stock Option Plan at a notional amount of DM 1.2.

To determine the fair value of the option rights of convertible bonds, option pricing models may be used. As such, the resulting fair values can fluctuate significantly based upon the underlying assumptions. Accordingly, generally uniform and consistent values are not available. See Note 16 in respect for the valuation of the option rights including the underlying assumptions and conditions of converting the option rights in accordance with SFAS 123 "Accounting for Stock-Based Compensation".

Disbursements to former members of the Board of Management of Daimler-Benz AG and their survivors amounted to DM 18. An amount of DM 123 has been accrued in the financial statements of Daimler-Benz AG for pension obligations to former members of the Board of Management and their survivors. Beginning in 1997, Daimler-Benz AG also recognizes pension obligations in accordance with U.S. GAAP in its German Statutory Financial Statements. As of December 31, 1997, there existed no advances and loans to members of the Board of Management of Daimler-Benz AG.

(in millions of DM, except per share amounts)

5. Financial Income, net

	Year ended December 31, 1997	1996	1995
Income from investments of which from affiliated companies DM 33 (1996: DM 39; 1995: DM 36)	*125*	419	518
Gains (losses), net from disposals of investments and shares in affiliated and associated companies	*897*	(18)	(4)
Write-down of investments and shares in affiliated companies	*(148)*	(107)	(121)
Income (loss) from companies included at equity	*68*	(128)	(665)
Income (loss) from investments, net	***942***	**166**	**(272)**
Other interest and similar income of which from affiliated companies DM 20 (1996: DM 24; 1995 DM 5)	*2,289*	1,641	1,729
Interest and similar expenses	*(971)*	(872)	(1,184)
Interest income, net	***1,318***	**769**	**545**
Income from securities and long-term receivables	*31*	17	65
Gains from sales of securities	*166*	111	246
Write-down of securities and long-term receivables	*(19)*	(6)	(130)
Realized and unrealized gains (losses) on financial instruments	*(1,723)*	(763)	286
Other, net	*(97)*	202	189
Other financial income (loss), net	***(1,642)***	**(439)**	**656**
	618	496	929

The Group capitalized interest expenses related to qualifying construction projects of DM 69 (1996: DM 49; 1995: DM 29).

6. Income Taxes

Income (loss) before income taxes and minority shares amounted to DM 4,249 (1996: DM 1,961; 1995: DM (7,233)), of which DM 2,936 was generated by the Group's operations in Germany (1996: DM 1,200; 1995: DM (6,874)).

The provisions for income taxes (credit) follow:

(in millions of DM, except per share amounts)

	Year ended December 31,		
	1997	1996	1995
Current taxes			
Germany	*(2,881)*	404	231
Foreign	*686*	456	715
Deferred taxes			
Germany	*(1,780)*	(1,448)	(2,258)
Foreign	*(7)*	(124)	(308)
	(3,982)	(712)	(1,620)

German corporate tax law applies a split-rate imputation with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law in effect for fiscal 1997, retained corporate income is initially subject to a federal corporation tax of 45% plus a solidarity surcharge of 7.5% on the federal corporate tax payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 48.375%. Upon distribution of retained earnings to stockholders, the corporate income tax rate on the earnings is adjusted to 30%, plus a solidarity surcharge of 7.5% on the distribution corporate tax, for a total of 32.25%, by means of a refund for taxes previously paid. Upon distribution of retained earnings in the form of a dividend, stockholders who are taxpayers in Germany are entitled to a tax credit in the amount of federal income taxes previously paid by the corporation.

While the current taxes are calculated on the basis of the tax rate in effect for 1997, calculation of the deferred taxes is based on the rate in effect as of January 1, 1998. Effective January 1, 1998, the solidarity surcharge on the federal corporate tax payable is reduced from 7.5% to 5.5%. As a result, for German companies, the deferred taxes are calculated on an effective corporate income tax rate of 47.475% plus the after federal tax benefit rate for trade tax of 8.525%. Temporary differences at December 31, 1997 of the Group's German operations have been tax effected at the reduced rate. The effect of the tax rate reduction on year-end deferred tax balances is reflected in the reconciliation presented below.

A reconciliation of income taxes determined using the German corporate tax 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:

	Year ended December 31,		
	1997	1996	1995
Expected provision (benefit) for income taxes	*2,422*	1,118	(4,123)
Change in tax rate for deferred taxes, domestic	*133*	–	–
Credit for dividend distributions	*(3,176)*	(167)	(6)
Foreign tax rate differential	*(73)*	(260)	(218)
Non-deductible expenses	*19*	84	129
Tax free income	*(36)*	(166)	(227)
Release of valuation allowances on Group´s German deferred tax assets as of December 31, 1997	*(1,962)*	–	–
Changes in valuation allowances on deferred tax assets	*(909)*	(1,043)	1,381
Losses for which benefits were not recognizable	–	–	260
Write-downs of investments for which benefits were not previously recognized	*(469)*	(207)	–
Write-off of goodwill, not tax-deductible	*107*	57	1,143
Other	*(38)*	(128)	41
Actual benefit for income taxes	*(3,982)*	(712)	(1,620)

(in millions of DM, except per share amounts)

The 1997 income tax credit from dividend distributions amounts to DM 3,176 and reflects primarily a tax benefit of DM 2,908 from the special distribution of DM 20 per Ordinary Share/ADS. This benefit results from the refund for taxes previously paid on undistributed profits at a rate of 50% in excess of the effective tax rate of 30% on distributed profits.

In 1997, the Group's consolidated valuation allowances decreased by DM 2,855. Of this amount, a reduction of DM 2,871 applied to domestic operations and a slight increase of DM 16 to foreign operations which is included in the foreign tax rate differential. The decrease in the consolidated domestic valuation allowances is due in part to DM 909 utilization of tax loss carryforwards during 1997. Additionally, DM 1,962 is due to the reversal of the remaining valuation allowances as of December 31, 1997 for the German companies which are included in the filing of a combined tax return ("Organschaft") on the basis that the current and the expected results of operations support a conclusion that it is more likely than not that the deferred tax assets will be realized. The valuation allowances which remain at December 31, 1997 apply primarily to the Group's foreign operations.

During 1997 the Group sold its investment in Cap Gemini Sogeti S.A. and realized a gain of DM 822 in its consolidated financial statements which was not taxable since write-downs were previously not recognized for tax purposes.

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 Aktiengesellschaft into Daimler-Benz AG during 1996, after which the German loss carryforwards of AEG Aktiengesellschaft could be utilized by the Group's German "Organschaft". Prior to the merger such net operating losses ("NOLs") were limited as to their use, and accordingly were fully reserved for in the amount of DM 231. In addition, during 1996 the Group realized tax benefits related to investments written down in previous years.

During 1995 the Group was unable to recognize the tax benefits of DM 260 resulting from losses incurred by Fokker, after the decision was made in January 1996 to discontinue financial support for that company.

The amount of the Group's deferred tax valuation allowances is based upon management's belief that it is more likely than not that not all of the deferred tax assets will be realized. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

Deferred income tax assets and liabilities are summarized as follows:

	December 31,	
	1997	1996
Intangible assets	*628*	917
Property, plant and equipment	*946*	889
Equipment on operating leases	*1,941*	1,694
Inventories	*2,132*	1,473
Receivables	*882*	311
Net operating loss and credit carryforwards	*6,556*	9,498
Retirement plans	*2,233*	2,019
Other accrued liabilities	*2,374*	1,178
Liabilities	*1,242*	962
Deferred income	*435*	311
Other	*413*	459
	19,782	19,711
Valuation allowances	*(509)*	(3,364)
Deferred tax assets	*19,273*	16,347
Property, plant and equipment	*492*	521
Equipment on operating leases	*2,608*	2,016
Financial assets	*269*	793
Inventories	*890*	640
Receivables	*4,877*	3,090
Securities	*389*	222
Other accrued liabilities	*803*	1,595
Other	*486*	120
Deferred tax liabilities	*10,814*	8,997
Deferred tax assets, net	*8,459*	7,350

(in millions of DM, except per share amounts)

At December 31, 1997, the Group had net operating losses ("NOLs") and corporate tax credit carryforwards amounting to DM 11,918 (1996: DM 16,551). The majority of the NOLs relate to the German group of companies which are included in "Organschaft" and have an unlimited carryforward period under German tax law. The remainder of the NOLs relate to losses of domestic and foreign non-"Organschaft" companies and are partly limited in their use to the group.

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

	December 31, 1997		December 31, 1996	
	Total	*thereof non-current*	Total	thereof non-current
Deferred tax assets	*10,462*	*8,242*	9,603	7,913
Deferred tax liabilities	*(2,003)*	*(1,710)*	(2,253)	(1,519)
	8,459	*6,532*	7,350	6,394

Deferred tax liabilities of DM 4,064 (1996: DM 2,527) have not been recognized on unremitted earnings of non-German subsidiaries intended to be indefinitely reinvested. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

Notes to the Consolidated Balance Sheets

7. Intangible Assets and Property, Plant and Equipment, net

Information with respect to changes to the Group's intangible assets and property, plant and equipment is presented in the Consolidated Fixed Assets Schedule included herein. Intangible assets represent principally the goodwill from the formation of Adtranz. Property, plant and equipment include buildings, technical equipment and other equipment capitalized under capital lease agreements of DM 735 (1996: DM 498). Depreciation expense on assets under capital lease arrangements was DM 57 (1996: DM 86; 1995: DM 121).

8. Equipment on Operating Leases, net

Information with respect to changes to the Group's equipment on operating leases is presented in the Consolidated Fixed Assets Schedule included herein. Of the total equipment on operating leases, DM 14,318 represent automobiles and commercial vehicles (1996: DM 11,402). The amount for equipment on operating leases includes initial direct costs of contracts of DM 153 (1996: DM 118).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 1997 amounted to DM 8,451 and are due as follows:

1998	3,331
1999	2,516
2000	1,619
2001	517
2002	175
thereafter	293

(in millions of DM, except per share amounts)

9. Inventories

	At December 31,	
	1997	1996
Raw materials and manufacturing supplies	*3,233*	2,960
Work in process thereoff relating to long-term contracts and programs in process DM 1,378 (1996: DM 1,485)	*6,515*	6,883
Finished goods, parts and products held for resale	*8,978*	7,989
Advance payments to suppliers	*659*	734
	19,385	18,566
Less: Advance payments received thereof relating to long-term contracts and programs in process DM 1,505 (1996: DM 582)	*(4,995)*	(4,964)
	14,390	13,602

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 LIFO method, inventories would have been higher by DM 325 (1996: DM 299).

10. Trade Receivables

	At December 31,	
	1997	1996
Receivables from sales of goods and services	*13,042*	11,971
Long-term contracts and programs, unbilled, net of advance payments received	*476*	305
	13,518	12,276
Allowance for doubtful accounts	*(1,512)*	(1,412)
	12,006	10,864

As of December 31, 1997, DM 852 of the total financing receivables mature after more than one year (1996: DM 483).

(in millions of DM, except per share amounts)

11. Receivables from Financial Services

	At December 31,	
	1997	1996
Receivables from:		
Sales financing	*20,659*	14,550
Finance leases	*9,808*	7,542
	30,467	22,092
Initial direct costs	*167*	98
Unearned income	*(4,316)*	(2,908)
Unguaranteed residual value of leased assets	*80*	105
	26,398	19,387
Allowance for doubtful accounts	*(474)*	(335)
	25,924	19,052

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 years following December 31, 1997 are as follows:

1998	12,046
1999	7,368
2000	5,535
2001	2,989
2002	1,549
thereafter	980
	30,467

As of December 31, 1997, DM 15,226 of the total financing receivables mature after more than one year (1996: DM 11,098).

12. Other Receivables

	At December 31,	
	1997	1996
Receivables from affiliated companies	*733*	1,787
Receivables from related companies[1]	*1,385*	908
Other receivables and other assets	*11,812*	8,296
	13,930	10,991
Allowance for doubtful accounts	*(1,679)*	(2,032)
	12,251	8,959

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

As well as the tax reduction relating to the distribution of DM 1.60 per share, the tax reduction of approximately DM 2.9 billion relating to a special distribution of DM 20 per share is included in other receivables and other assets.

As of December 31, 1997, DM 2,111 of the total other receivables mature after more than one year (1996: DM 1,904).

(in millions of DM, except per share amounts)

13. Securities, Investments and Long-Term Financial Assets

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

	At December 31,	
	1997	1996
Debt securities	*3,229*	1,827
Equity securities	*2,089*	773
Equity based funds	*2,031*	1,432
Debt based funds	*7,338*	5,751
	14,687	9,783

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, 1997				At December 31, 1996			
		Fair	*Unrealized*			Fair	Unrealized	
	Cost	*value*	*Gain*	*Loss*	Cost	value	Gain	Loss
Available-for-sale	*11,631*	*12,285*	*654*	–	7,714	8,137	429	6
Trading	*2,382*	*2,402*	*20*	–	1,618	1,646	30	2
Securities	*14,013*	*14,687*	*674*	–	9,332	9,783	459	8
Investments and long-term financial assets available-for-sale	*552*	*1,018*	*466*	–	667	741	80	6
	14,565	*15,705*	*1,140*	–	9,999	10,524	539	14

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

	At December 31, 1997				At December 31, 1996			
		Fair	*Unrealized*			Fair	Unrealized	
	Cost	*value*	*Gain*	*Loss*	Cost	value	Gain	Loss
Equity securities	*1,240*	*1,956*	*716*	–	1,410	1,545	147	12
Municipal securities	*116*	*116*	–	–	93	94	1	–
Debt securities issued by foreign governments	*804*	*804*	–	–	48	48	–	–
Corporate securities	*1,058*	*1,058*	–	–	8	8	–	–
Equity based funds	*1,631*	*2,031*	*400*	–	1,183	1,432	249	–
Debt based funds	*7,334*	*7,338*	*4*	–	5,639	5,751	112	–
Available-for-sale	*12,183*	*13,303*	*1,120*	–	8,381	8,878	509	12
Trading	*2,382*	*2,402*	*20*	–	1,618	1,646	30	2
	14,565	*15,705*	*1,140*	–	9,999	10,524	539	14

(in millions of DM, except per share amounts)

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

	At December 31,	
	1997	1996
Available-for-sale:		
Due within one year	*1,373*	47
Due after one year through five years	*605*	103
	1,978	150

Proceeds from sales of available-for-sale securities were DM 1,677 (1996: DM 1,126; 1995: DM 337). Gross realized gains from sales of available-for-sale securities on a specific identification basis were DM 180 (1996: DM 22; 1995: DM 6), while gross realized losses were DM 2 (1996: DM 6; 1995: DM 1).

14. Cash and Cash Equivalents

Cash and cash equivalents include DM 342 (1996: DM 1,337) of deposits with original maturities of more than three months. Cash and cash equivalents include DM 1,519 (1996: DM 174) of amounts on deposit with a related party.

15. Additional Cash Flow Information

Liquid assets recorded under various balance sheet captions are as follows:

	At December 31,		
	1997	1996	1995
Cash and cash equivalents available within 3 months	*5,491*	3,220	2,868
Cash and cash equivalents which mature after 3 months	*342*	1,337	283
Securities	*14,687*	9,783	9,025
Other	*657*	505	124
	21,177	14,845	12,300

The following information with respect to cash flows are as follows:

	Year ended December 31,		
	1997	1996	1995
Interest paid	*1,828*	1,705	1,055
Income taxes paid	*1,189*	553	570

(in millions of DM, except per share amounts)

16. Stockholders' Equity

At December 31,1995, the Group had issued and outstanding 51,368,736 Ordinary Shares with a nominal (par) value of DM 50 per share. On May 22, 1996 the Group, upon the approval of its shareholders, reduced the nominal value of its Ordinary Shares from DM 50 per share to DM 5 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 the year 1995 has been adjusted to reflect per share amounts based upon a DM 5 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 516,748,337 as of December 31, 1997 (1996:515,396,396).

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. Through December 31, 1997, there was no utilization of the latter amount.

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 3 are unissued and expire on April 30, 1999. In 1997, 1996 and 1995, 1,250,000, 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, DM 6 and DM 3, and DM 159, DM 80 and DM 44, respectively

Subject to preemptive rights of existing stockholders, Daimler-Benz in the stockholders' meetings 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, a subsidiary of the Company. 4.125% convertible notes in the amount of DM 750 were issued with a nominal value of DM 1,000 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. Subject to excluded preemptive rights of the subordinated mandatory convertible notes described below, those prices were reduced DM .20 each beginning on May 14, 1997. During 1997, options for the subscription of 1,785 (1996: 36) newly issued shares have been exercised. Proceeds from issuance of the notes, net of expenses, were DM 711.

In June 1997, the Company issued 5.75% subordinated mandatory convertible notes due June 14, 2002 with a nominal amount of DM 130.70 per note. These convertible notes represent a nominal amount of DM 993 including 7,600,000 notes which may be converted into 0.862 newly issuable shares before June 4, 2002. Notes not converted by this date will be mandatorily converted at a conversion rate between 0.862 and 1.25 Ordinary Shares per note to be determined on the basis of the average market price for the shares during the last 20 trading days before June 8, 2002. During 1997, 156 shares have been issued upon exercise.

During May 1996, the stockholders of Daimler-Benz AG approved the 1996 Stock Option Plan for certain members of management. During May 1997, the stockholders approved the 1997 Stock Option Plan which extended to additional levels of management. In conjunction therewith in 1996 the stockholders reserved up to DM 40 of contingent authorized capital which was subsequently increased in 1997 to DM 110. The Plans provide for the granting of options for the purchase of Daimler-Benz Ordinary Shares. As evidenced by non-transferable convertible bonds issued with a nominal value of DM 1,000 each due ten years after issuance with stated interest rates of 5.3% and 5.9% for the bonds issued in 1997 and 1996, respectively. Each convertible bond entitles the holder thereof to convert the bond into Ordinary Shares with an aggregate nominal value of DM 1,000 (equaling 200 shares with a nominal value of DM 5 per share). Every year the conversion privilege under each 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.

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. DM 5 per share have been paid already with the purchase of the convertible bond.

Effective July 23, 1997, Daimler-Benz AG issued convertible bonds of DM 37.1 (equaling 7,429,600 shares with a nominal value of DM 5 per share) subject to the 1997 Stock Option Plan. The conversion price of these convertible bonds, which may only be converted in certain periods between July 23, 1999 and July 23, 2007, is DM 132 per share (the stock exchange price as of May 30, 1997).

On June 30, 1997, a stockholder challenged the approval of the 1997 Stock Option Plan at the stockholders meeting of May 28, 1997. On October 30, 1997, a regional court in Stuttgart dismissed this case in the first instance, however the stockholder has subsequently appealed this decision. The conversion right is exercisable only upon successful resolution of the stockholder legal action.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock compensation plans. Had compensation cost for the Company's stock compensation plans been determined based upon the fair value at the grant date, consistent with the methodology prescribed under SFAS 123 the Company's net income and basic and diluted earnings per share would have been reduced by approximately DM 26 and DM .05 per share in 1997. The fair value of the options granted in 1997 was calculated at the grant date at DM 23 per share based on a trinomial tree option pricing model which considers the terms of the issuance. The underlying assumptions are as follows:

	1997
Expected dividend yield	0.83 %
Expected volatility	26.2 %
Risk-free interest rate	3.65 %
Expected life	2 years

Analysis of the Stock Options issued to management is as follows:

	1997			1996		
	Nominal value of convertible bonds	Number of Stock Options	Average conversion price per share	Nominal value of convertible bonds	Number of Stock Options	Average conversion price per share
Balance at beginning of year	1.0	198,000	83.77	–	–	–
Bonds sold	37.1	7,429,600	132.00	4.4	889,000	83.77
Converted	(0.5)	(100,000)	83.77	(3.2)	(659,000)	83.77
Repayment	(0.1)	(18,000)	132.00	(0.2)	(32,000)	83.77
Outstanding at year-end	37.5	7,509,600	131.37	1.0	198,000	83.77
Exercisable at year-end	0.5	98,000	83.77	1.0	198,000	83.77

(in millions of DM, except per share amounts)

At December 31, 1997 no additional convertible bonds may be subscribed under the 1997 and 1996 plans.

The minority stockholders of Dornier GmbH have the right to exchange their interest in Dornier for holdings of equal value in Daimler-Benz Luft- und Raumfahrt Holding AG or Ordinary Shares of Daimler-Benz AG and such options are exercisable at any time.

Under the German corporation law (Aktiengesetz), 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). For the year ended December 31, 1997, Daimler-Benz management has proposed to distribute DM 827 (DM 1.60 per share) of the 1997 earnings of Daimler-Benz AG as a dividend to the stockholders. In addition, a special distribution of DM 20 per share with an aggregate amount of approximately DM 10,300 will be proposed to the Annual General Meeting of stockholders scheduled for May 27, 1998. Subsequent to the special distribution, the Company plans to increase Ordinary Shares and additional paid-in capital by approximately DM 7,400. This amount approximates the special distribution less the tax refund generated by the special distribution of approximately DM 2,900 (see Note 6).

At December 31, 1997, Daimler-Benz AG had retained earnings of DM 2,057.

17. Accrued Liabilities

Accrued liabilities are comprised of the following:

	At December 31, 1997		At December 31, 1996	
	Total	*Due after one year*	Total	Due after one year
Retirement plans (see Note 17a)	*17,200*	*16,493*	16,232	15,555
Income and other taxes	*1,476*	*590*	2,327	1,163
Other accrued liabilities (see Note 17b)	*17,942*	*8,771*	16,327	8,289
	36,618	*25,854*	34,886	25,007

a) Retirement plans

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

	At December 31,	
	1997	1996
Pensions liabilities	*16,760*	15,847
Accrued postretirement medical benefits	*273*	220
Other plans	*167*	165
	17,200	16,232

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).

(in millions of DM, except per share amounts)

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

	At December 31, 1997		At December 31, 1996	
	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:				
Vested	422	19,982	317	18,530
Nonvested	71	624	39	572
Accumulated benefit obligations	493	20,606	356	19,102
Effect of projected future salary increases	149	2,082	137	1,921
Projected benefit obligations	642	22,688	493	21,023
Plan assets at fair value	(979)	(5,829)	(758)	(5,398)
Projected benefit obligations in excess of (less than) plan assets	(337)	16,859	(265)	15,625
Unrecognized net gains (losses)	183	(98)	144	222
Prior service cost not yet recognized	8	(1)	16	–
Pension liabilities (prepaid pension costs)	(146)	16,760	(105)	15,847

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 assumptions used in calculating the actuarial values for the principal retirement plans were as follows:

	1997 in %	1996 in %	1995 in %
Discount rate	6.5–8.0	6.75–8.0	7.0–8.0
Long-term rate of increased remuneration	3.0–5.0	3.5–5.0	3.0–6.0
Expected long-term rate of return on assets	6.0–8.0	7.0–8.0	7.0–9.0

The net periodic pension costs for the major retirement plans comprised of the following:

	1997	1996	1995
Service cost (present value of benefits earned during the year)	512	546	563
Interest cost on projected benefit obligations	1,461	1,451	1,441
Actual return on assets	(668)	(443)	(442)
Net amortization and deferral	188	10	51
Net periodic pension costs	1,493	1,564	1,613

Certain of the Group's U.S. operations provide postretirement medical benefits to their employees. The net post retirement costs for the years were DM 29 (1996: DM 26; 1995: DM 25).

(in millions of DM, except per share amounts)

b) Other accrued liabilities

Other accrued liabilities consisted of the following:

	At December 31,	
	1997	1996
Accrued warranty costs and price risks	*6,342*	5,284
Accrued losses on uncompleted contracts	*1,264*	1,931
Restructuring	*1,424*	1,825
Accrued personnel and social costs	*1,645*	1,572
Other	*7,267*	5,715
	17,942	16,327

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
Utilizations and transfers	(525)	(367)	(892)
Reductions	(88)	(72)	(160)
Additions	585	66	651
Balance at December 31, 1997	1,086	338	1,424

In connection with the Group's restructuring the Group recorded provisions for termination benefits of DM 585 (1996: DM 423; 1995: DM 842), in 1997 principally within Automotive, in 1996 and 1995 principally within Automotive, AEG-DBI and Daimler-Benz Aerospace. In connection with these restructuring efforts, the Group effected workforce reductions of approximately 6,600 employees (1996: 11,800; 1995: 14,800) and paid termination benefits of DM 983 (1996: DM 745; 1995 DM 1,489), of which DM 525 (1996: DM 556; 1995: DM 1,132) were charged against previously established liabilities. At December 31, 1997 the Group had liabilities for estimated future terminations for approximately 8,000 employees.

Exit costs in 1997 primarily result from the restructuring of directly managed businesses. In 1996, they relate exclusively to businesses of the former AEG-DBI and in 1995 mainly result from plans to reduce the production capacity of AEG-DBI and Daimler-Benz Aerospace.

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

18. Financial Liabilities

	Weighted average interest rate	Maturities	At December 31, 1997	1996
Notes	6.9	1998	*1,199*	486
Commercial paper	5.3	1998	*11,579*	7,841
Liabilities to financial institutions	5.5	1998	*8,023*	6,784
Liabilities to affiliated companies	5.8	1998	*56*	152
Loans, other financial liabilities		1998	*319*	186
Liabilities from capital lease and residual value guarantees		1998	*910*	562
Short-term financial liabilities			*22,086*	16,011
Bonds of which due in more than five years: DM 2,725 (1996: DM 3,236)	6.0	1999–2007	*8,859*	6,830
Liabilities to financial institutions of which due in more than five years: DM 2,896 (1996: DM 2,523)	5.6	1999–2019	*6,735*	5,015
Liabilities to affiliated companies of which due in more than five years: DM 170 (1996: DM 217)	5.8	1999–2004	*554*	380
Loans, other financial liabilities of which due in more than five years: DM 2 (1996: DM 2)			*12*	40
Liabilities from capital lease and residual value guarantees of which due in more than five years: DM 601 (1996: DM 160)			*1,056*	574
Long-term financial liabilities			*17,216*	12,839
			39,302	28,850

Liabilities to financial institutions include approximately DM 851 (1996: DM 721) 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 2,249 (1996: DM 2,381).

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

	1998	1999	2000	2001	2002	there-after
Financial liabilities	22,086	2,354	3,134	2,781	2,553	6,394

At December 31, 1997, the Group had unused short-term credit lines of DM 17,982 (1996: DM 14,225), and unused long-term credit lines of DM 6,194 (1996: DM 5,672).

(in millions of DM, except per share amounts)

19. Trade Liabilities

	At December 31, 1997			At December 31, 1996		
	Total	*Due after one year*	*Due after five years*	Total	Due after one year	Due after five years
Accounts payable	*10,928*	*63*	*3*	8,890	508	67
Accrued liabilities from long-term contracts and programs	*151*	*–*	*–*	137	21	–
	11,079	*63*	*3*	9,027	529	67

20. Other Liabilities

	At December 31, 1997			At December 31, 1996		
	Total	*Due after one year*	*Due after five years*	Total	Due after one year	Due after five years
Liabilities to affiliated companies	*1,082*	*.*	*.*	1,255	3	1
Liabilities to related companies	*1,869*	*38*	*24*	1,192	25	24
Other liabilities	*7,165*	*557*	*31*	6,345	123	4
	10,116	*595*	*55*	8,792	151	29

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, 1997 tax liabilities include withheld employee taxes of DM 1,318 (1996: DM 972), and social benefits due of DM 1,143 (1996: DM 906).

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, 1997 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, 1997.

(in millions of DM, except per share amounts)

22. Commitments and Contingencies

Commitments and contingencies are presented at their contractual values.

Commitments and contingencies include the following:

	At December 31,	
	1997	1996
Guarantees	*3,918*	3,932
Notes payable	*195*	257
Contractual guarantees	*1,622*	1,932
Pledges of indebtedness of others	*363*	487
	6,098	6,608

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.

In connection with the development of aircraft, Daimler-Benz Aerospace Airbus GmbH is committed to Airbus Industrie to incur future development costs. At December 31, 1997, the remaining commitment not recorded in the financial statements aggregated DM 948. 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, 1997, 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 in the future. In addition, the Group was also contingently liable related to credit guarantees and participations 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. Based on experience, the probability of 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, should be unable to honor its obligations, the Group is confident that each of its other consortium partners would be responsible for their proportionate share of Airbus' obligations.

In 1989, the Group acquired Messerschmitt-Bölkow-Blohm GmbH ("MBB") and thereby indirectly acquired Daimler-Benz Aerospace Airbus (then known as Deutsche Airbus) which was and continues to be the German participant in Airbus Industrie. As part of the acquisition and in order to facilitate the complete privatization of MBB and the German participation in Airbus Industrie, the Government of the Federal Republic of Germany undertook responsibility for certain financial obligations of MBB and Daimler-Benz Aerospace Airbus and agreed to provide certain ongoing limited financial assistance for development programs and other items. Such undertakings, advances and assistance were to be repaid on a contingent basis by Daimler-Benz Aerospace Airbus' making annual payments equal to 40% of its pretax profits (as defined), if any, beginning with the fiscal year 2001 (subject to advance to the year 2000 under certain conditions). Each annual payment is contingent on Daimler-Benz Aerospace Airbus' having earned pretax profits in the prior year. Pretax profits are subject to reduction by application of prior years' cumulative loss carryforwards. Daimler-Benz Aerospace Airbus also agreed to make certain payments in the nature of a royalty with respect to the various Airbus aircraft programs. Prior to specified dates between 2001 and 2004, these royalty payments, if earned, are accrued on a per aircraft basis and added to the amount to be discharged through the 40% profit-sharing obligation. Thereafter, they are to be made on a per aircraft basis on terms keyed to the delivery date for each aircraft.

(in millions of DM, except per share amounts)

The amount of the annual 40% profit-sharing obligation, if any, will depend upon the profitability of Daimler-Benz Aerospace Airbus in 2001 and beyond, which will be subject to a variety of unpredictable factors. Accordingly, the Group is unable to predict with certainty how long Daimler-Benz Aerospace Airbus will remain subject to the contingent 40% profit-sharing obligation, but it is likely to be a period of decades. Daimler-Benz Aerospace Airbus may not pay dividends prior to 2001, unless at the same time it commences making the 40% profit-sharing payments. The Group may not sell or transfer a majority of the capital stock of Daimler-Benz Aerospace Airbus without the consent of the German Federal Government.

During 1997, Daimler-Benz Aerospace Airbus paid the German Federal Government DM 1,400 in complete discharge of its obligations relating to the Airbus A320 and its derivatives. Of this amount, DM 721 was expensed in 1997 and the remainder will be amortized over those A320 aircraft and derivatives to be delivered in the future.

In connection with certain production programs the Group has committed to certain levels of outsourced manufactured parts and components over extended periods at market prices. The Group is subject to compensations in the case the committed volumes are not purchased.

In the normal course of business, the Group sells to third parties certain of its financial services assets. During the year ended December 31, 1997 the Group sold assets for proceeds of DM 1,457 (1996: DM 1,774). In connection with such sales, the Group remained liable under recourse provisions for DM 314(1996: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 940 (1996: DM 885; 1995: DM 878). The future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 1997 are as follows:

	Operating leases
1998	750
1999	515
2000	459
2001	379
2002	336
thereafter	1,758

23. Information About Financial Instruments

a) Use of financial instruments

In the course of day-to-day financial management, Daimler-Benz uses financial instruments, e.g. financial investments, fixed-interest bearing securities and stock, forward exchange transactions and currency options, 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 to reduce such risks. Without the use of these instruments the Group's market risks would be higher.

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

Market risk in portfolio management is quantified according to the "value-at-risk" method which is commonly used among banks. Using historical variability of market values, potential changes in value resulting from changes of market prices is calculated on the basis of statistical methods. The maximum acceptable market risk has been fixed by senior management in the form of a risk capital which has been approved for one year. The adherence to the risk capital is regularly monitored.

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.

(in millions of DM, except per share amounts)

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

	At December 31,	
	1997	1996
Currency contracts	*40,252*	34,140
Interest rate contracts	*42,903*	27,205

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 objective of the Group's hedging transactions is to reduce the market risk of its foreign denominated future cash flows to exchange rate fluctuations. The Group has entered into currency contracts for 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 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 price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors, the fair values presented herein 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, 1997		At December 31, 1996	
	Carrying amount	*Fair value*	Carrying amount	Fair value
Balance Sheet Financial Instruments:				
Assets:				
Financial assets	*1,662*	*1,662*	1,465	1,465
Receivables from financial services	*25,924*	*26,143*	19,052	18,909
Securities	*14,687*	*14,687*	9,783	9,783
Cash and cash equivalents	*5,833*	*5,833*	4,557	4,557
Other	*657*	*657*	505	505
Liabilities:				
Financial liabilities	*(39,302)*	*(40,027)*	(28,850)	(29,019)
Off-Balance Sheet Financial Instruments:				
Assets:				
Currency contracts	*172*	*501*	630	1,227
Interest rate contracts	*104*	*211*	104	258
Liabilities:				
Currency contracts	*(1,047)*	*(1,884)*	(539)	(639)
Interest rate contracts	*(93)*	*(461)*	(78)	(341)

(in millions of DM, except per share amounts)

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, 1997 and 1996, the Group had deferred net unrealized gains (losses) on forward currency exchange contracts and options of DM (508) and DM 462, respectively, purchased against firm foreign currency denominated sales commitments extending for varying periods between three and twenty-four months.

The carrying amounts of cash, other receivables and accounts payable approximate fair values due to the short-term maturities of these instruments.

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

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

Receivables from Financial Services - The carrying amount 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 comparable loans of similar maturity would be obtained made as of December 31, 1997 and 1996. The carrying amounts of receivables from finance lease equal their fair values.

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 amounts of commercial paper and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

Interest Rate Contracts - The fair values of existing instruments to hedge interest rate risks (e.g. interest rate swap agreements) were estimated by discounting expected cash flows using market interest rates over the remaining term of the instrument. Interest rate options are valued on the basis of quoted market prices or on estimates based on option pricing models.

Currency Contracts - The fair value of forward foreign exchange contracts is based on average spot exchange rates that consider forward premiums or discounts. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

d) Accounting for and reporting earnings of financial instruments

The earnings of the Group's on-balance sheet financial instruments, with the exception of receivables from financial services, are recognized in financial income, net. Income on receivables from financial services are recognized as revenues. The carrying amounts of the on-balance sheet financial instruments are included in the consolidated balance sheets under their related captions. The carrying amounts of off-balance sheet financial instruments are included under other assets and accrued liabilities.

Financial instruments, including derivatives, purchased to offset the Group's exposure to identifiable and committed transactions with price, interest or currency risks are accounted for together with the underlying business transactions ("hedge accounting"). Gains and losses on forward contracts and options hedging firm foreign currency commitments are deferred off-balance sheet and are recognized as a component of the related transactions, when recorded (the "deferral method"). However, a loss is not deferred if deferral would lead to the recognition of a loss in future periods.

Interest differentials paid or received under interest rate swaps purchased to hedge interest risks on debt are recorded as adjustments to the effective yields of the underlying debt ("accrual method").

All other financial instruments, including derivatives, purchased to offset the Group's net exposure to price, interest or currency risks, but which are not designated as hedges of specific assets, liabilities or firm commitments are marked to market and any resulting unrealized gains and losses are recognized currently in financial income, net.

Derivatives purchased by the Group under macro-hedging techniques, as well as those purchased to offset the Group's exposure to anticipated cash flows, do not generally meet the requirements for applying hedge accounting and are, accordingly marked to market at each reporting period with unrealized gains and losses recognized in financial income, net. At such time that the Group meets the requirements for hedge accounting and designates the derivative financial instrument as a hedge of a committed transaction, subsequent unrealized gains and losses would be deferred and recognized along with the effects of the underlying transaction.

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* - development, manufacture and sale of passenger cars and commercial vehicles principally under the trade mark Mercedes-Benz as well as related parts and accessories.
- *Aerospace* - development, manufacture 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, telecommunications and media and real estate management.
- *Directly managed businesses (DMB)* - In 1997 and 1996 represents 50% interest in Adtranz and microelectronics and automation processing products (up to December 31, 1996) 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 third party selling prices.

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

	Automotive	Aerospace	Services	DMB[1]	Corporate	Eliminations	Consolidated
1997							
Revenues	88,707	15,158	13,066	7,082	37	–	124,050
Intersegment sales	2,925 [2]	128	2,432	473	28	(5,986)	–
Total revenues	91,632	15,286	15,498	7,555	65	(5,986)	124,050
Operating profit (loss)	3,501	432	457	(129)	(51)	118	4,328
Identifiable assets	46,955	20,556	19,410	11,871	38,307	–	137,099
Depreciation and amortization	3,612	559	2,576	540	79	–	7,366
Capital expenditures	4,862	495	367	512	706	–	6,942
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

(in millions of DM, except per share amounts)

	Automotive	Aerospace	Services	DMB[1]	Corporate	Eliminations	Consolidated
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 1997 and 1996 includes Adtranz accounted for using the proportionate method of consolidation (see Note 2).

(2) Includes DM 2,801 and DM 2,443 for 1997 and 1996, respectively, 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) Aerospace operating loss includes charges of DM 435 in 1996 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 and write-downs to fixed assets of DM 331 (see Note 3).

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

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

	1997	1996	1995
Income (loss) before financial income and income taxes	*3,631*	1,465	(8,162)
Interest on advance payments received on long-term contracts	*270*	303	205
Earnings from Airbus Industrie	*109*	267	331
Corporate research of Daimler-Benz AG	*316*	407	397
Items not allocable to segments	*2*	(19)	32
Operating profit (loss)[1]	*4,328*	2,423	(7,197)

(1) Operating profit in 1996 includes charges of DM 435 related to the aircraft business of Dornier offset by approximately DM 300 of reductions in provisions for restructuring measures. Operating loss in 1995 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 Note 3).

(in millions of DM, except per share amounts)

Geographic information with respect to the Group's revenues, operating profit (loss) and identifiable assets follows:

	Germany	Other European Countries	North America	Latin America	Asia	Other Countries	Eliminations	Consolidated
1997								
Revenues (by destination)	41,055	37,105	26,608	5,322	9,513	4,447	–	124,050
Revenues (by operation):								
To unaffiliated customers	62,301	25,090	24,183	5,192	4,252	3,032	–	124,050
Transfers between geographic areas	31,318	2,878	1,382	241	743	182	(36,744)	–
Total revenues	93,619	27,968	25,565	5,433	4,995	3,214	(36,744)	124,050
Export sales from Germany	–	13,173	2,824	755	4,137	560	–	21,449
Operating profit	3,139	75	638	195	254	27	–	4,328
Identifiable assets	81,429	17,291	28,137	6,032	2,852	1,358	–	137,099
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 areas	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
Operating profit (loss)	1,755	123	440	12	95	(2)	–	2,423
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 areas	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
Operating profit (loss)	(7,326)	(776)	645	9	65	186	–	(7,197)
Identifiable assets	65,523	12,677	16,675	3,631	2,723	869	–	102,098

(in millions of DM, except per share amounts)

25. Earnings per Share

The earnings (loss) per share are determined as follows:

in millions of DM or millions of shares except earnings (loss) per share	At December 31,		
	1997	1996	1995
Basic earnings (loss) per share:			
Net income (loss)	*8,042*	2,762	(5,729)
Weighted average number of shares outstanding	*515.7*	513.9	513.0
	15.59	5.37	(11.17)
Diluted earnings (loss) per share:			
Net income (loss)	*8,042*	2,762	(5,729)
Interest expense on convertible bonds and notes (net of tax)	*38*	7	–
	8,080	2,769	(5,729)
Weighted average number of shares outstanding	*515.7*	513.9	513.0
Dilutive convertible bonds and notes	*12.5*	4.0	–
	528.2	517.9	513.0
	15.30	5.35	(11.17)

The convertible bonds of the 1997 Stock Option Plan are not included in the computations of diluted earnings per share because the options' underlying target stock price was above market price of Daimler-Benz AG common stock on December 31, 1997.

26. Subsequent Events

Following the decision to concentrate on core activities, the Group's semiconductor business was sold to the American company Vishay Intertechnology, Inc. in March 1998.

In January 1998 the Group sold two real-estate-project-companies to Berliner Volksbank.

In May 1997, the Company entered into an agreement to acquire the Heavy Truck Business of Ford Motor Company. The transaction included: tooling, machinery and equipment used to manufacture the product; spare parts inventory to support the product line, and other minor assets. In addition, Ford Motor Company will provide assistance in the product launch and cost reduction efforts for this business as well as engineering and systems services during 1998. All material aspects of the acquisition will be consummated during 1998.

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.

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Frankfurt/Main
Chairman of the Supervisory Board, Deutsche Bank AG
Chairman

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

Willi Böhm*)
Worth
Member of the Labor Council of the Worth Plant, Daimler-Benz AG

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

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

Dr. jur. Michael Endres
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Second Chairman, Metalworkers' Union

Jürgen Sarrazin
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Until December 31, 1997, Chairman of the Board of Managing Directors, Dresdner Bank AG

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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 Böhm
Dr. h.c. Birgit Breuel

In 1997, the Supervisory Board and the Board of Management jointly reviewed the situation of the Group and the strategic development of the individual divisions and business units at four regular meetings and one extraordinary meeting. Individual issues were also discussed.

The Executive Committee met four times during the course of the year under review and in addition to matters relating to the Board of Management discussed issues relating to subsidiaries and affiliated companies and the issuance of employee shares. The Audit Committee met twice, and together with the independent auditors discussed at length the 1996 financial statements and the interim report for the first six months of 1997. The Committee formed pursuant to the German Law on Codetermination did not meet.

At the meetings and as part of its monthly reporting 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. 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 continually advised by the Board of Management in individual meetings.

The principal focus of the extraordinary Supervisory Board meeting in January 1997 was the new corporate structure. The central topic was the merger of Mercedes-Benz AG into Daimler-Benz AG. The Passenger Car, Commercial Vehicle, Services (debis), Aerospace (Dasa), Finance/Controlling, Personnel, Research and Technology, Sales, Corporate Development, and the Directly Managed Businesses divisions were formed at the same time. This created the principal organizational and structural conditions for the Group's realignment.

The regular items treated at the Supervisory Board meeting in February were the 1997-1999 business plan for the medium-range future together with the investment, personnel, and earnings planning and the Company's refinancing needs. The 1996 financial statements were reviewed at the meeting in April. Any matters requiring approval as per the Articles of Incorporation were discussed as well.

The Board of Management also reported regularly on the development of the individual vehicle classes and the Passenger Car and Commercial Vehicle divisions. The new CLK and Mi-Class series, the A-Class developments, the expansion of the product ranges for the heavy-duty Actros truck, and the inauguration of the plants in Hambach, Tuscaloosa, and Bad Cannstatt were presented in detail.

Other important topics included the strategic alignment of the individual divisions and the related subsidiaries and affiliated companies. The acquisition of Ford Heavy Trucks and its integration within the Freightliner organization under the Sterling nameplate deserve special mention in this respect. The increase of the Company's share in Micro Compact Car AG and the associated assumption of corporate responsibility for the Smart project was presented and discussed at length at the meetings on April 11 and June 25, 1997

The partnership with the Canadian company Ballard Power Systems represents a milestone in the development of the technological innovation capabilities of Daimler-Benz. The objective of this undertaking is to advance the development and marketing of fuel cell technology. The fact that Ford became part of the joint venture in December 1997 broadens the industrial and technological basis of the project, above all in the field of propulsion technology. It also underscores the appropriateness of our decision.

With the founding of the Tegaron joint venture together with Telekom, debis made a crucial step toward establishing itself in the telematics market. The acquisition of shares in FreeCom GmbH strengthened debitel´s market position.

The acquisition of Siemens' defense electronics business should be viewed as an important contribution to the permanent consolidation of the Defense and Civil Systems unit. As a result, Dasa was able to significantly expand its product range in defense electronics.

Other individual topics reviewed by the Supervisory Board concerned the realization of the Euro fighter program at Dasa, restructuring at Airbus, the partnership with Groupe Lagardere in the space systems and defense sectors, the construction of the A3XX widebody jet, the expansion of the A340-500/600 product program, and the completed repayment to the Federal Republic of Germany of development subsidies for the A320 program.

Important steps toward streamlining the Group's portfolio were the sale of the TEMIC semiconductor activities to Vishay and the withdrawal from our involvement in Cap Gemini. In connection with corporate strategy reporting, the Supervisory Board was at all times included in deliberations revolving around the positioning of TEMIC, which were completed with the sale of the semiconductor activities at year-end. The separation of debis Systemhaus from Cap Gemini opens up new opportunities for the international orientation of this division culminating in the auspicious outsourcing agreement with Banco Ambrosiano Veneto.

The 1997 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. The same applies to the consolidated financial statements according to U.S. GAAP, with a reservation concerning the proportionate method of consolidation for joint ventures used by Daimler-Benz which nonetheless is specifically allowed by the Securities and Exchange Commission (SEC). 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 in the presence of 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. On April 3, 1998, the Supervisory Board acknowledged the 1997 consolidated financial statements, approved and ratified the 1997 financial statements of Daimler-Benz AG, and agreed with the Board of Management's proposed appropriation of earnings.

There were no personnel changes on the Supervisory Board and Board of Management since the 1997 Shareholders Meeting.

At its meeting on January 23, 1997, the Supervisory Board appointed Dr. Cordes as full member of the Board of Management responsible for Corporate Development and the Directly Managed Businesses effective April 1, 1997 Also effective April 1, 1997, Mr. Vöhringer was appointed as a full member of the Board of Management responsible for the functional department Research and Technology.

Mr. Werner voluntarily resigned from the Board of Management with effect from January 31, 1997

At the meeting on January 23, 1997, the following additional changes to the Board of Management were decided with respect to the new structure of Daimler-Benz AG effective April 1, 1997: Dr. Gentz transferred to Mr. Tropitzsch his responsibility for Personnel, which until then he had managed conjointly with the Finance department. Mr. Tropitzsch was appointed as the director of labor and, along with Mr. Hubbert (Passenger Car Division), Dr. Lauk (Commercial Vehicle Division), and Dr. Zetsche (Sales), as a member of the Board of Management.

Stuttgart-Mohringen, April 1998
The Supervisory Board

Chairman

Major Subsidiaries of Daimler-Benz AG

	Ownership[1] in %	Stockholders' Equity[2] in Millions of DM	Net Income[2] in Millions of DM 1997	1996	Revenues[3] in Millions of DM 1997	1996	Employment at Year-End 1997	1996
Automotive Business								
EvoBus GmbH, Stuttgart [4]	100.0	332	***80.8***	127.6	***3,009***	2,892	***9,250***	9,282
Mercedes-Benz Lenkungen GmbH, Düsseldorf	100.0	63	***6.6***	(4.1)	***453***	389	***1,354***	1,286
Mercedes-Benz España S.A., Madrid	100.0	312	***24.1***	(5.3)	***3,612***	2,467	***4,615***	4,127
Mercedes-Benz (United Kingdom) Ltd., Milton Keynes [4]	100.0	–[5]	***–[5]***	–[5]	***5,146***	3,496	***982***	975
Mercedes-Benz Nederland B.V., Utrecht [4]	100.0	–[5]	***–[5]***	–[5]	***1,415***	1,293	***510***	518
Mercedes-Benz Belgium S.A./N.V., Brussels	100.0	129	***13.9***	15.1	***1,348***	1,219	***529***	526
Mercedes-Benz France SAS, Rocquencourt [4]	100.0	–[5]	***–[5]***	–[5]	***3,357***	3,340	***2,040***	1,995
Mercedes-Benz Italia S.p.A., Rome [4]	100.0	259	***7.6***	7.0	***3,307***	2,758	***612***	592
Mercedes-Benz (Schweiz) AG, Zurich	100.0	101	***7.2***	9.7	***1,024***	923	***266***	267
NAW Nutzfahrzeuge AG, Arbon	100.0	31	***4.0***	1.2	***131***	128	***414***	397
Micro Compact Car AG, Biel [4]	81.0	331	***(296.5)***	(11.9)	***–***	–	***812***	328
Mercedes-Benz Hellas S.A., Athens	100.0	31	***3.3***	22.7	***248***	229	***144***	148
Mercedes-Benz Danmark AS, Hillerød	100.0	28	***4.2***	4.0	***492***	399	***269***	241
Mercedes-Benz Sverige AB, Stockholm	100.0	21	***(4.9)***	(1.4)	***467***	366	***243***	192
Mercedes-Benz Bohemia s.r.o., Prague	100.0	16	***6.5***	4.3	***205***	134	***142***	118
Freightliner Corporation, Portland [4]	100.0	–[5]	***–[5]***	–[5]	***9,226***	7,223	***10,556***	9,822
Mercedes-Benz of North America, Inc., Montvale [4]	100.0	–[5]	***–[5]***	–[5]	***9,660***	6,439	***1,263***	1,249
Mercedes-Benz U.S. International, Inc., Tuscaloosa	100.0	–[5]	***–[5]***	–[5]	***804***	–	***1,296***	634
Mercedes-Benz Mexico S.A. de C.V., Mexico D.F. [4]	100.0	–[5]	***–[5]***	–[5]	***644***	248	***1,045***	789
Mercedes-Benz do Brasil S.A., São Bernardo do Campo	100.0	1,572	***196.6***	91.5	***4,076***	3,146	***11,513***	10,899
Mercedes-Benz Argentina, Buenos Aires [4]	100.0	302	***13.5***	(18.6)	***1,077***	671	***1,834***	1,600
Mercedes-Benz of South Africa (Pty.) Ltd., Pretoria [4]	87.0	53	***(65.0)***	(118.3)	***2,092***	1,885	***3,800***	4,058
Mercedes-Benz Türk A.S., Istanbul	55.6	173	***138.4***	31.0	***1,676***	1,067	***3,666***	3,400
Mercedes-Benz India Ltd., Pune	51.0	(9)	***(68.2)***	(46.7)	***126***	105	***578***	384
P.T. German Motor Manufacturing, Jakarta	33.3	30	***12.2***	–	***470***	–	***1,715***	–
Mercedes-Benz Japan Co. Ltd., Tokyo	100.0	297	***41.9***	59.1	***3,104***	2,915	***405***	406
Mercedes-Benz (Australia) Pty. Ltd., Mulgrave/Melbourne [4]	100.0	120	***33.9***	24.4	***922***	742	***667***	683
Aerospace								
Daimler-Benz Aerospace AG, Munich	100.0	4,178	***742.7***	44.2	***3,593***	3,080	***10,637***	10,613
Daimler-Benz Aerospace Airbus GmbH, Hamburg	100.0	1,965	***(620.5)***	1,442.9	***4,682***	3,412	***14,087***	14,805
Airbus Industrie G.I.E., Toulouse	37.9	–	***267.9***	686.3	***20,674***	13,349	***2,289***	2,207
Dornier GmbH, Friedrichshafen	57.6	401	***63.5***	(422.8)	***627***	578	***1,960***	1,873
Dornier Satellitensysteme GmbH, Munich	100.0	31	***21.5***	9.7	***1,568***	818	***1,489***	1,490
MTU Motoren- und Turbinen-Union München GmbH, Munich	100.0	243	***269.9***	39.1	***2,494***	1,936	***4,829***	5,259
MTU Maintenance GmbH, Langenhagen	100.0	30	***(11.8)***	6.0	***425***	351	***866***	723
LFK-Lenkflugkörpersysteme GmbH, Munich	100.0	46	***(19.9)***	(51.9)	***718***	884	***1,231***	1,874
Nortel Dasa Network Systems GmbH & Co. KG, Friedrichshafen [4]	50.0	97	***26.1***	(14.1)	***466***	337	***816***	764
Eurocopter-Gruppe, Paris [4]	40.0	974	***5.6***	(112.7)	***3,031***	2,792	***9,617***	9,968
TDA Armements S.A.S., Paris [4]	50.0	(13)	***(41.3)***	2.0	***263***	312	***902***	1,024
CMS, Inc., Tampa [4]	100.0	–[5]	***–[5]***	–[5]	***158***	109	***572***	546

	Ownership[1] in %	Stockholders' Equity[2] in Millions of DM	Net Income[2] in Millions of DM 1997	1996	Revenues[3] in Millions of DM 1997	1996	Employment at Year-End 1997	1996
Services								
Daimler-Benz InterServices (debis) AG, Berlin	100.0	1,936	*841.7*	150.6	–	–	*293*	239
debis Systemhaus GmbH, Hamburg	100.0	345	*18.1*	38.8	*842*	801	*1,560*	1,456
debitel Kommunikationstechnik GmbH & Co. KG, Stuttgart	60.0	104	*60.9*	31.5	*1,761*	1,355	*1,136*	701
Mercedes-Benz Finanz GmbH, Stuttgart	100.0	593	*222.9*	175.2	*319* [6]	279 [6]	*627*	182
Mercedes-Benz Leasing GmbH, Stuttgart	100.0	66	*228.1*	183.0	*2,182*	1,452	– [7]	362
Mercedes-Benz Finance Ltd., Milton Keynes [4]	100.0	. [5]	. [5]	. [5]	*571*	364	*215*	133
Mercedes-Benz Financement S.A., Le Chesnay [4]	100.0	. [5]	. [5]	. [5]	*170*	157	*121*	142
Mercedes-Benz Finanziaria (Merfina) S.p.A., Rome	100.0	81	*0.4*	(8.0)	*217*	201	*120*	118
Mercedes-Benz Credit Corporation, Norwalk [4]	100.0	. [5]	. [5]	. [5]	*4,394*	3,656	*1,067*	716
Mercedes-Benz Finance Co. Ltd., Tokyo	90.0	103	*15.7*	21.6	*105* [6]	125 [6]	*35*	30
Directly Managed Businesses								
ABB Daimler-Benz Transportation GmbH, Berlin [8]	50.0	750	*(411.9)*	0.8	*6,453*	6,022	*22,715*	21,841
TEMIC TELEFUNKEN microelectronic GmbH, Heilbronn [9]	100.0	865	*(5.4)*	(32.1)	*2,648*	2,455	*11,099*	10,191
MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen	88.4	100	*(135.9)*	35.4	*1,533*	1,480	*4,983*	4,914
L'Orange GmbH, Stuttgart	100.0	20	*3.7*	3.0	*95*	78	*498*	423
MTU Asia Pte. Ltd., Singapore	75.5	45	*5.0*	6.5	*275*	299	*170*	162
Regional Holding and Finance Companies								
Daimler-Benz Holding AG, Zurich	100.0	320	*19.7*	57.3	–	–	*2*	2
Daimler-Benz UK Public Ltd., London [4]	100.0	381	*110.3*	81.8	–	–	*6*	6
Daimler-Benz France S.A., Rocquencourt [4]	100.0	367	*36.0*	(2.7)	–	–	*1*	2
Daimler-Benz Holding Nederland B.V., Utrecht [4]	100.0	193	*24.3*	32.2	–	–	*1*	–
Daimler-Benz Coordination Center S.A./N.V., Brussels	100.0	672	*20.7*	32.6	–	–	*21*	22
Daimler-Benz España S.A., Madrid	87.9	266	*(0.5)*	50.4	–	–	*12*	12
Daimler-Benz North America Corporation, New York [4]	100.0	5,482	*528.9*	266.3	–	–	*36*	31

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.
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) Included in the employment figure of Mercedes-Benz Finanz GmbH, Stuttgart, as of 1997.
8) Amounts for ABB Daimler-Benz Transportation group according to IAS.
9) Amounts for TEMIC group according to U.S. GAAP.

Figures of the Decade 1988-1997[1]

Daimler-Benz Group - in millions of DM -	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
From the statements of income:										
Revenues	73,495	76,392	85,500	95,010	98,549	97,737	104,075	102,985	106,339	124,050
of which [2]: Germany	29,094	29,562	36,674	44,443	42,572	38,319	39,015	37,684	39,165	41,055
EU excl. Germany	14,821	16,912	18,876	18,907	22,349	20,049	20,881	24,417	26,104	31,498
North America	11,817	13,032	12,820	12,969	13,881	17,138	19,609	19,533	20,472	26,608
Asia	–	–	–	–	8,757	8,620	9,719	8,727	8,309	9,513
Other countries	17,763	16,886	17,130	18,691	10,990	13,611	14,851	12,624	12,289	15,376
Passenger Cars	31,833	31,865	34,142	38,331	38,650	36,370	40,107	38,638	43,913	50,953
Commercial Vehicles	23,063	23,104	23,730	26,986	26,199	25,358	28,132	30,947	31,045	37,754
Aerospace	4,976 [3]	7,489	12,168	11,974	16,735	18,173	17,053	14,261	12,979	15,158
Services	–	–	2,739	4,146	5,781	7,103	8,749	9,426	10,798	13,066
Directly Managed Businesses [4]	13,152	11,852	12,721	13,573	11,184	10,733	10,034	9,713	7,604	7,082
Cost of sales	–	–	–	–	–	89,964	90,337	86,686	84,742	98,943
Purchases of goods and services	37,646	39,552	44,477	49,456	49,084	51,076	56,289	60,210	60,872	70,508
Personnel expenses	22,371	23,199	26,890	29,372	32,003	33,790	30,108	30,572	27,809	30,201
of which: wages and salaries	17,846	18,864	21,881	23,813	26,138	27,653	24,145	24,265	22,064	24,021
Operating profit (loss) [5]	–	–	2,924	3,654	2,026	(3,299)	2,708	(7,197)	2,423	4,328
Financial results	–	–	–	–	–	2,205	226	929	496	618
Extraordinary result	–	–	–	(544)	–	2,603	–	–	–	–
Income (Loss) before taxes	4,683	9,552 [6]	3,609	2,981	2,037	1,130	2,077	(7,233)	1,961	4,249
Net income (loss)	1,702	6,809 [6]	1,795	1,942	1,451	615	895	(5,729)	2,762	3,172 [7]
Net income (loss) per DM 5 share, adjusted (in DM) [8] [9]	3.80	3.92 [10]	3.58	3.98	3.01	1.28	2.16	(11.17)	5.37	6.15 [7]
Operating margin	–	–	3.4%	3.8%	2.1%	(3.4)%	2.6%	(7.0)%	2.3%	3.5%
Return on stockholders' equity [11]	15.8%	12.0% [10]	10.3%	10.4%	7.4%	3.2%	4.7%	(21.9)%	11.2%	11.2%
From the balance sheets:										
Property, plant and equipment	10,984	13,508	15,057	16,574	19,254	18,921	17,727	16,576	18,225	20,656
Leased equipment	3,678	5,043	6,518	8,092	9,777	11,879	10,209	9,700	11,941	14,931
Current assets	33,545	41,580	42,408	44,793	51,086	55,003	57,037	60,777	66,817	85,091
of which: liquid assets	14,202	14,638	13,693	10,554	9,830	10,457	14,017	12,300	14,845	21,177
Total assets	51,931	62,737	67,339	75,714	86,184	90,926	93,536	102,098	112,461	137,099
Stockholders' equity	11,323	16,966	17,827	19,448	19,719	18,145	20,251	22,860	26,393	35,085
of which: capital stock	2,118	2,330	2,330	2,330	2,330	2,330	2,565	2,568	2,577	2,584
Financial liabilities	–	–	–	13,330	17,082	20,728	20,323	22,285	28,850	39,302
Mid- and long-term provisions and liabilities	24,485	24,331	25,529	28,045	33,833	37,118	36,144	36,411	38,526	43,728
Short-term provisions and liabilities	15,995	21,152	23,619	27,712	32,075	35,084	36,672	37,342	43,029	53,387
Debt in % of stockholders' equity	–	–	–	69%	87%	114%	100%	97%	109%	122% [12]
Net debt [13]	–	–	–	2,776	7,252	10,271	6,306	9,985	14,005	18,125
Net debt in % of stockholders' equity	–	–	–	14%	37%	57%	31%	44%	53%	56% [12]
Current ratio (excl. inventories)	1.3	1.1	1.1	0.9	1.0	0.9	0.9	1.0	0.9	1.0

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
From the cash flow statements:										
Investments in property, plant and equipment [14]	5,057	4,931	5,667	6,518	6,250	4,488	4,522	4,782	6,212	6,942
Investments in leased equipment	2,538	3,061	3,588	4,191	5,206	5,855	5,593 [14]	6,338	6,100 [14]	7,608
Depreciation on property, plant and equipment	3,028	3,082	3,558	4,076	4,699	5,209	4,918	4,707	4,410	4,584
Depreciation on leased equipment	877	1,249	1,499	1,764	2,178	2,536	2,275	2,270	2,018	2,323
Research and development cost [15]	4,744	5,494	8,193	8,401	9,312	9,043	8,692	8,941	8,845	9,756
Cash provided by operating activities	–	–	–	–	5,328	9,913	11,282	5,455	10,203	11,242
Cash used for investing activities	–	–	–	–	(7,523)	(10,523)	(10,591)	(10,742)	(12,154)	(16,595)
From the stock exchange:										
Share price high (in DM) [8]	73.69	81.75	94.34	78.35	80.52	83.33	89.90	76.04	106.40	161.85
low (in DM) [8]	50.73	61.61	53.81	50.01	49.95	52.61	70.30	60.77	72.40	103.60
at year-end (in DM) [8]	70.95	79.78	54.31	73.43	53.17	83.33	75.84	72.30	106.15	126.00
Market capitalization at year-end (in billions of DM)	31.3	37.6	25.6	34.7	25.1	39.3	39.0	37.2	54.7	65.1
Number of employees at year-end:										
Daimler-Benz Group	338,749	368,226	376,785	379,252	376,467	366,736	330,551	310,993	290,029	300,068
of which: Germany	268,277	298,199	303,404	305,295	302,464	284,576	251,254	242,086	222,821	225,266
Foreign	70,472	70,027	73,381	73,957	74,003	82,160	79,297	68,907	67,208	74,802
Passenger Cars	–	96,734	100,479	103,632	95,492	90,248	83,396	80,733	83,732	91,753
Commercial Vehicles	–	90,663	93,920	96,762	90,786	84,925	81,012	82,041	80,483	85,071
Vehicle Sales Organization	–	31,338	32,022	32,854	32,164	30,859	29,250	29,375	29,615	30,518
Aerospace	–	62,959	61,276	56,465	81,872	86,086	75,581	50,784	44,936	43,521
Services	–	–	4,879	6,203	8,258	8,812	9,226	10,196	11,500	14,898
Directly Managed Businesses [4]	89,585	77,722	76,949	76,338	60,784	58,921	44,769	49,432	31,005	28,293
Average annual number of employees	336,975	339,875	374,217	381,511	382,633	371,107	341,905	321,222	291,268	295,514
Daimler-Benz AG - in millions of DM -										
Net income (loss)	1,382	1,120	1,120	1,194	703 [16]	390	565	(6,577)	1,298	5,795
Total dividend amount (paid/proposed)	504	555	557	603	604	373	564	–	567	827
Dividend per DM 5 share (in DM)	1.20	1.20	1.20	1.30	1.30	0.80	1.10	–	1.10	1.60
Dividend including tax credit [17] per DM 5 share (in DM)	1.88	1.88	1.88	2.03	2.03	1.14	1.57	–	1.57	2.29
Adjusted dividend per DM 5 share [8]:										
Dividend (in DM)	1.15	1.18	1.18	1.29	1.29	0.79	1.10	–	1.10	1.60
Dividend including tax credit [17] (in DM)	1.80	1.85	1.85	2.01	2.01	1.13	1.57	–	1.57	2.29
Special distribution (proposed)	–	–	–	–	–	–	–	–	–	10,335
Special distribution per DM 5 share (in DM)	–	–	–	–	–	–	–	–	–	20.00
Special distribution including tax credit [17] per DM 5 share (in DM)	–	–	–	–	–	–	–	–	–	28.57

1) Until 1994 values according to German GAAP (HGB).
2) Segment reporting.
3) Consolidated values of Dornier and MTU included in Group revenues.
4) Until 1995 values for AEG Daimler-Benz Industrie.
5) Until 1994 operating profit according to German GAAP (HGB).
6) Due to non-recurring income and expense items not comparable with other years.
7) Excluding non-recurring tax benefits.
8) Comparably calculated on the basis of capitalization issues and a DM 5 share.
9) Excluding minority interests.
10) Comparably calculated.
11) Net income (loss) in percent of average stockholders' equity; 1997 excluding non-recurring tax benefits.
12) Stockholders' equity excluding tax benefits relating to a special distribution.
13) Debt minus liquid assets.
14) Excluding book values from the first-time consolidation of companies.
15) Including R&D for third parties.
16) Excluding extraordinary income of DM 4,490 million.
17) For our stockholders who are taxable in Germany.

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Publications for our shareholders:
Daimler-Benz Annual Report
(German, English and French)
Form 20-F
(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)
Daimler-Benz Environmental Report
(German and English)
Disk with financial information
(English; editable MS EXCEL tables)

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 Wirtschaftspriifungsgesellschaft 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. The financial statements may be obtained from Daimler-Benz free of charge.

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.

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Balance Sheet Press Conference:
April 8, 1998
10:00 am
Kultur- und Kongreßzentrum (Congress Centre)
Stuttgart, Germany

Corporate Presentation to Analysts:
April 8, 1998
2:30 pm
Stuttgart-Mohringen

Annual General Meeting:
May 27, 1998
10:00 am
Hanns-Martin-Schleyer-Halle
Stuttgart, Germany

Half-Year Balance Sheet Press Conference:
July, 30, 1998
10:00 am
Frankfurt am Main

Corporate Presentation to Analysts:
July, 30 1998
2:00 pm
Frankfurt am Main

Daimler-Benz will be reporting on the first quarter of 1998 at the Balance Sheet Press Conference on April 8, 1998, on the first six months with a semi-annual report published on July 30, 1998, and on the first nine months at the end of October 1998.

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