DaimlerChrysler

Merger of Growth

Annual Report **1998**

DaimlerChrysler

Amounts in Millions	98 DM [1]	98 US $ [2]	98 €	97 €	96 €
Revenues	257,744	154,615	131,782	117,572	101,415
Europe	94,794	56,868	48,468	42,115	37,270
United States	127,716	76,616	65,300	56,615	49,485
Other markets	35,234	21,136	18,014	18,842	14,660
Employees (at Year-End)			441,502	425,649	418,811
Research and Development Costs	13,090	7,853	6,693	6,501	5,751
Investments in Property, Plant and Equipment	15,950	9,568	8,155	8,051	6,721
Cash Provided by Operating Activities	32,625	19,571	16,681	12,337	9,956
Operating Profit	16,807	10,082	8,593	6,230	6,212
Net Operating Income	12,862	7,716	6,576	5.252	-
Net Income	9,428	5,656	4,820	4,057 [3]	4,022
Per Share	10.09	6.05	5.16	4.28 [3]	4.24
Net Income Adjusted [4]	10,212	6,126	5,221	4,057	-
Per Share Adjusted [4]	10.90	6.55	5.58	4.28	-
Total dividend	4,608	2,764	2,356	-	-
Dividend per Share	4.60	2.76	2.35	-	-

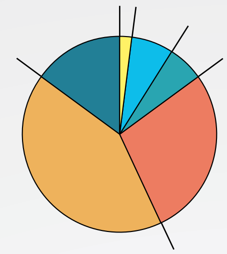
[1]) Conversion rate: € 1 = DM 1.95583
[2]) Rate of exchange: € 1 = US $ 1.1733
(based on the noon buying rate on Dec. 31, 1998 of US $1 = DM 1.6670 and the conversion rate of € 1 = DM 1.95583);
the average US $/DM rate of exchange in 1998 was 1.7597.
[3]) Excluding one time positive tax effects, especially special pay-out of € 10.23 (DM 20) per share.
[4]) Excluding nonrecurring items: 1998 before merger costs; 1997 excluding one-time positive tax effects,
especially special payout of € 10.23 (DM 20) per share.

PASSENGER CARS

Mercedes-Benz
smart®

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	2,338	1,993	1,716
Revenues *)	38,234	32,587	27,555
Investments in Property, Plant and Equipment	2,341	1,995	1,885
R&D	2,264	1,930	1,583
Unit Sales		922,795	715,055
Employees *(12/31)*		95,158	91,753

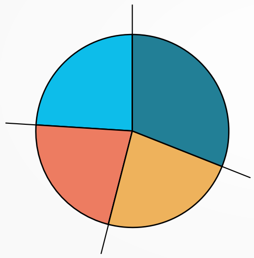
Percentage of Sales



PASSENGER CARS & TRUCKS

Chrysler
Plymouth
Jeep®
Dodge

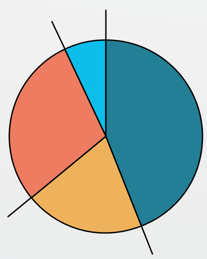
Amounts in Millions	98 US $	98 €	97 €
Operating Profit	4,942	4,212	3,368
Revenues *)	66,101	56,340	51,942
Investments in Property, Plant and Equipment	4,599	3,920	4,501
R&D	1,989	1,695	1,512
Unit Sales		3,093,716	2,886,981
Employees *(12/31)*		123,180	118,639



COMMERCIAL VEHICLES

Mercedes-Benz
Freightliner
Sterling
Setra

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	1,110	946	342
Revenues *)	27,175	23,162	20,012
Investments in Property, Plant and Equipment	976	832	601
R&D	837	714	602
Unit Sales		489,680	417,384
Employees *(12/31)*		89,711	85,071



* Unconsolidated figures of the business.

A-Class	15 %
C-Class, CLK, SLK	42 %
E-Class	28 %
S-Class/SL	6 %
M-Class/G-Class	7 %
smart	2 %

Passenger Cars	31%
Trucks	23 %
Minivans	22 %
Sport-Utility Vehicles	24 %

Vans	44 %
Light and Medium Duty Trucks/Unimogs	20 %
Heavy Duty Trucks	29 %
Buses	7 %

CHRYSLER FINANCIAL SERVICES

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	765	652	586
Revenues *)	3,376	2,877	2,407
Employees *(12/31)*		3,513	3,405

SERVICES

Financial Services
IT Services
Telecom Services

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	460	392	246
Revenues *)	11,232	9,573	7,924
Investments in Property, Plant and Equipment	334	285	193
Employees *(12/31)*		20,221	14,898

AEROSPACE

Commercial Aircraft
Military Aircraft
Space Systems Infrastructure
Satellites
Defense and Civil Systems
Aeroengines

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	731	623	284
Revenues *)	10,290	8,770	7,816
Investments in Property, Plant and Equipment	382	326	255
R&D	2,402	2,047	2,233
Employees *(12/31)*		45,858	43,521

OTHERS

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	(171)	(146)	(225)
Revenues *)	4,019	3,426	3,896
Investments in Property, Plant and Equipment	935	797	635
R&D	360	307	571
Employees *(12/31)*		32,581	37,844

O U R   P U R P O S E

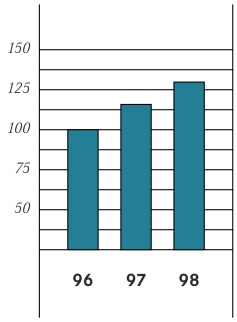
is to be a global provider of automotive and transportation products and services, generating superior value for our customers, our employees and our shareholders.

O U R   M I S S I O N

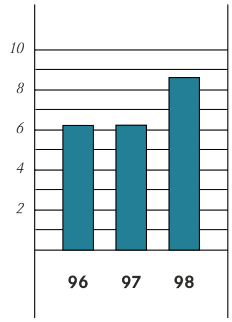
is to integrate two great companies to become a world enterprise that by 2001 is the most successful and respected automotive and transportation products and services provider.

We will accomplish this by constantly delighting our customers with the quality and innovation of our products and services, resulting from the exellence of our processes, our people and our unique portfolio of strong brands.

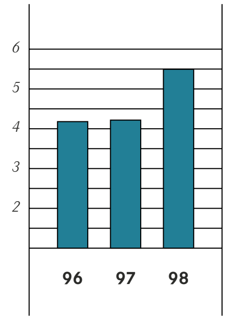
Consolidated Revenues
in Billions of €



Operating Profit
in Billions of €



Earnings per Share*)
in €



*) Adjusted for non-recurring items.

C O N T E N T S

Dear Shareholders and Employees:

1998 was a historic year. A year all of us will remember.

It saw the creation of DaimlerChrysler – a new company formed from a merger which was completed in record time and with the overwhelming support of you, our shareholders and our employees. A new company with a proud combined heritage, with unparalleled products and brands, and with extraordinary opportunities that neither Daimler-Benz nor Chrysler alone could have dreamed of.

A GREAT START. The people of DaimlerChrysler have made a great start in turning this potential into performance.

In 1998:

- Revenues grew to € 131.8 billion (US $146.5 billion), up 12 % compared to combined 1997 results.
- Operating profits increased to € 8.6 billion (US $9.6 billion), up 38 %.
- Net income, excluding extraordinary one-time costs related to the merger, grew to € 5.2 billion (US $6.1 billion), up 29 %.
- Earnings per share grew by 30 % to € 5.58 (US $6.55), again excluding extraordinary one-time costs related to the merger.
- We sold more than 4.4 million cars, light trucks and commercial vehicles, and gained market share in virtually every market in which we operate – despite intense competition.
- DaimlerChrysler Services (debis) achieved record results and further strengthened its competitive position.
- DaimlerChrysler Aerospace (Dasa) had its best year ever.
- As a result of our strong performance, DaimlerChrysler created 19,000 new jobs.

These results are a tribute to the hard work and dedication of our people. They show that all of us kept our eye on the ball, despite the extra work involved in the merger.

With what we have achieved so far, with the way in which we are bringing the two companies together, with our exciting plans for the future: DaimlerChrysler is in pole position to deliver extraordinary value to our customers, our shareholders and our employees in the years ahead.

DELIVERING VALUE. Our proposal to declare a dividend of € 2.35 per share, reflects our commitment to shareholder value. For former Chrysler shareholders, this represents a continuation of the high dividend levels of recent years. For former Daimler-Benz shareholders, it is a significantly better return than in the past.

Also, we are the first company in the world to introduce a “global share,” which is traded as a registered share – without the need for depository receipts – on 21 stock exchanges worldwide. We were one of the first companies to adopt the new European currency, the euro, as our corporate currency. By moving early, we already reap competitive benefits from this change. And this annual report is one of the first ever to report in euro.

We initiated a public offering of more than 20 % of our mobile communication service provider, debitel; and we are taking full control of Adtranz, our rail systems business, in order to turn the company around.

Most importantly, we are now adopting a tough new yardstick for evaluating the performance of each of our business units compared to our cost of capital – return on net assets, or “RONA”. We established a minimum target of 15.5 % RONA before tax. However, we push each business to do much better and achieve returns that match or exceed those of their best competitors’. At corporate level, taking into account items like financing and taxes, we earn our cost of capital when we achieve at least 9.2 % RONA after tax. In 1998, the stellar performance of our businesses returned 11.6 % RONA after tax at corporate level, compared to 10.2 % in 1997.

Robert J. Eaton
Jürgen E. Schrempp

CREATING THE NEW COMPANY. We aim to be truly one company – the world's leading automotive and transportation products and services company.

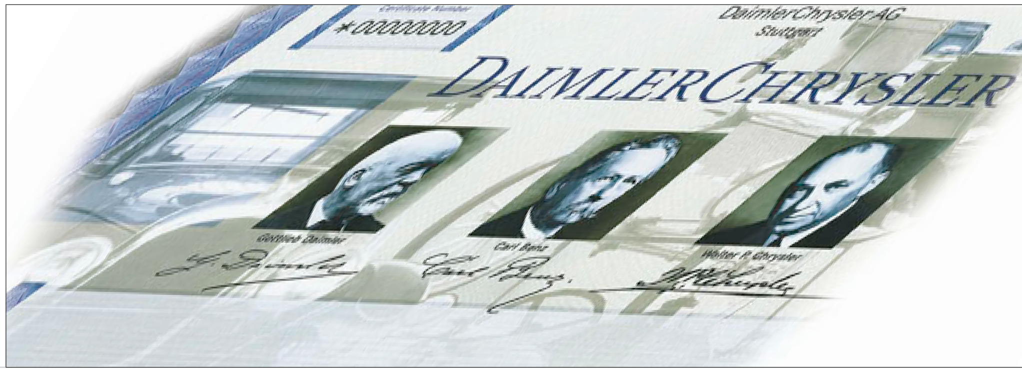
Already, we are on our way.

In just the first 100 days of your company, we made great strides in bringing together all key organizational functions so that our people can focus immediately on building the new company. We combined:

- our procurement functions – the first step toward leveraging our combined annual purchasing power of € 80 billion (US $94 billion);
- our sales and marketing organization – to maximize the strength and reach of our products;
- almost all of our staff functions, including quality assurance, corporate finance, legal, communications, and our information technology departments, which have been combined under one Chief Information Officer;
- our worldwide executive management development – to rapidly align performance evaluation and career planning;
- our research and development activities for diesel engines, electric vehicles and fuel cell vehicles into single dedicated teams – combining expertise and eliminating overlap;
- our financial services businesses – making DaimlerChrysler Services (debis) the world’s fourth largest non-bank financial services company with € 70 billion (US $82 billion) in assets.

All told, we are well on track to delivering our “synergy” target of € 1.3 billion (US $1.4 billion) in bottom-line profit improvement for 1999.

But for us integration is much more than just combining org charts. It's about bringing people together – in a way to really make this new company greater than the sum of its parts.



Right now, all across the world, people in DaimlerChrysler are working together to find new ways of doing things. No longer doing them in "the Chrysler way" or "the Daimler-Benz way", but shaping new solutions based on the strength of the diverse views and experiences that have made them so successful in the past.

This is not always easy, and discussions sometimes get quite heated. But new and better "DaimlerChrysler ways" of doing things are emerging. Because the best ideas often germinate in the warm soil of constructive conflict.

Of course, integrating two highly successful organizations is quite a challenge. To meet this challenge, we have set up an integration process that brings together key people in functional and cross-functional teams. Their task is to explore an ever increasing number of integration opportunities – currently around 100 major areas with nearly 1,300 subprojects – and then to quickly implement action plans. The teams report directly to us and the other DaimlerChrysler executives who make up the Chairmen's Integration Council. Built into this process is a sense of urgency and a high degree of accountability.

From the outset, the teams agreed on some simple guiding principles. The best value-creating ideas get priority. The people who can implement solutions must be involved. Put pragmatism before perfectionism – better to be 80 % right now, than 100% too late. Rapid implementation of agreed solutions. "Lessons learned" are captured and shared across the company.

This integration process acts like a catalyst within DaimlerChrysler – creating a new culture with new ways of thinking and interacting with one another. We can already see it happening. There is excitement. There is real commitment to achieving success. Close professional and personal relationships are being forged. Breakthroughs are happening every day.

For instance, we saw this spirit in action recently when close to 100 specialists revamped a plant in Graz, Austria, where we had already been building the Jeep® Grand Cherokee. Strong demand in Europe brought the opportunity to add capacity for our Mercedes-Benz M-Class. To maximize efficiencies, one group wanted to build both vehicles on the same production line. Another group wanted separate plants to keep the Jeep® and Mercedes-Benz brands as separate as possible. After some initially tense exchanges, they came up with a win-win solution – same plant, separate production lines – that will enable the plant to deliver an additional 30,000 Mercedes-Benz M-Classes annually to European markets starting in the summer of 1999. As a result, we will achieve bottom-line benefits worth € 280 million (US $330 million).

From this cross-fertilization of ideas between our European and North American plants, we will also save money and improve quality in our new Jeep® facility that is currently under construction in Toledo, Ohio.

In sales and marketing, we launched a major initiative to further enhance brand image while eliminating overlap in back office functions and logistics. For instance, we will cut advertising costs by focusing our global media buying on fewer agencies. And we are jointly harnessing cutting-edge information to enhance our customer relationship management and dealer communication systems.

This process of coming together as one is already paying off. It is opening up new opportunities and creating a platform from which we will drive forward.

OPPORTUNITIES FOR GROWTH. Going forward, your company enjoys some impressive opportunities. In the past, in order to recoup our investment, we had to pass on to competitors the innovative and world-leading technologies developed by Mercedes-Benz. Now we can keep these innovations in the family and use them to our distinct competitive advantage to enhance our own products and brands.

Through our joint venture with Ballard of Canada, we lead the world in fuel cell technology. We are working flat out with the goal of being the first to put an attractive and viable range of fuel cell vehicles into the market. As the next step in the development of our Jeep® Commander sports utility vehicle concept, for example, we plan to incorporate the fuel cell technology from the world's first methanol-powered fuel cell car, developed by Mercedes-Benz.

We are well positioned to increase market share in North America by breaking into new market segments. We intend to grow in Europe by expanding sales of Chrysler and Jeep® products with the support of our extensive Mercedes-Benz distribution network. We are also laying the groundwork in Asia, Latin America and other emerging markets, so as to be ready to expand when they recover. And in commercial vehicles, our teams have already identified a number of exciting, all-new product opportunities.

New opportunities are also opening up in our other businesses as well. Through DaimlerChrysler Services (debis), we are focusing on global growth in financial services, IT services and telecommunications. The combined strengths of our financial services will give us a formidable competitive platform, particularly in North America. We also expect to grow by applying our combined financial expertise across the full range of transportation products.

And through DaimlerChrysler Aerospace (Dasa), we will continue to build on our excellent international position through our involvement, for example, in Airbus commercial aircraft, in military aircraft and in space technologies. DaimlerChrysler Aerospace will clearly be a major player in European and global consolidation.

THE KIND OF COMPANY WE WANT TO BE. In the future, we will be operating in a whole new competitive landscape – dominated by increasingly global multibrand automotive companies. In this environment, what will make DaimlerChrysler special?

Let us tell you what kind of company we want DaimlerChrysler to be.

A PASSION FOR CREATIVITY. Above all, we will preserve, nurture and build upon the spirit that runs like a golden thread through everything we do – a spirit of adventure, a spirit of creativity, a relentless pursuit of quality, and an all-pervading sense of urgency. Every day we realize more and more that wherever we are in the world, we speak the same language: the language of passion – to design, build and sell great products that customers love.

Look at our upcoming new Chrysler PT Cruiser. Its fun, groundbreaking design promises to carve out a whole new niche for us in North America and, possibly, in Europe.

Or at our new Mercedes-Benz S-Class. With its elegant lines and breakthrough innovations, it is redefining the premium car market worldwide and setting new standards in automotive technology.

The same passion that drove the development of these cars inspires innovation in all areas of our business – from research to design, through engineering and manufacturing, to the way we serve our customers. As a result, 80 % of our revenues now come from products introduced in the last five years.

And that's just the start. Over the next three years we plan to invest more than € 46 billion (US $54 billion) to develop new technologies and new products and to bring them to market. With each product, we aim to push the envelope further. And each will be evidence of the passion and creativity we bring to our products.

KNOWLEDGE THAT EMPOWERS US. A passion for creativity is one key to unlock innovations. Knowledge is the other. We want DaimlerChrysler to be a company that uses everything we know as a force for competitive advantage. Because we believe that our combined experience and know-how on both sides of the Atlantic and all around the world can lift us above the crowd.

So we will invest heavily – time, energy, and money – to bring people together. This is particularly important in the beginning when people meeting face-to-face is so crucial to building understanding and to sharing creative ideas.

We are making our knowledge available on-line, "real-time" everywhere, for example through our Corporate University, through dedicated training of our employees, through Business TV channel and through the use of cutting-edge IT-networks. So our people can benefit from each others' experience – no matter where they are in the world.

We will encourage our people always to look for new ideas, wherever they may be found. And in turn to share their own ideas openly with others in the company.

Already this is happening. For example: We are currently looking at bringing an innovative paint technique developed in our German auto plants to America, where we could achieve significant cost savings and environmental benefits. And we believe that by sharing the experiences and lessons learned from many successful product introductions in recent years, we will be able to get new models into the marketplace faster and start earning a return on them sooner.

SPEED GIVES US THE EDGE. At DaimlerChrysler, we will be relentless about speed.

Our achievements in the past on both sides of the Atlantic have shown that speed is of the essence for competitive advantage. If we want to expand our customer base and increase margins we have to keep our brand and product range constantly up to date and bring innovative, high quality products to the market faster than our competitors. It is not enough to be passionate and innovative, we must also be swift.

Take the Dodge Durango, which went from concept to production in just 23 months, creating a whole new niche. Or our Airbus aircraft team in Hamburg, Germany, which, together with its partners in the Airbus consortium, has in less than three years reduced the manufacturing time of an aircraft from eighteen months to eight – doubling output. In both cases, the rewards were extraordinary.

Moving fast, we will introduce no fewer than 34 new cars, light trucks and commercial vehicles over the next three years, and many new products in services, aerospace, rail systems and diesel engines.

BEING TRULY GLOBAL. We want to meet and exceed the expectations of our customers wherever they are – with products designed especially for them.

To do this we have to be a truly global company. Integrate our worldwide design, engineering and production networks. Access global capital markets. Exploit global technologies. And harness global communications. At the same time, we have to be local and put down roots in key markets around the world. In each case, we will bring to bear a combination of skills, experience, technologies and financial and management resources with a unique local focus. Already we count as “domestic” half the world market for our products. We are at home in more than 200 countries. From our strong position in North America and Europe, we plan over time to expand in Asia, in Latin America and in other developing markets.

One of the prerequisites is to add to our core of skilled global managers and experts from all around the world, who are equally at ease doing business wherever we operate. And we want all our people wherever they are to be as global in their outlook as their company. In building such a global culture, we will increasingly use our Corporate University.

Wherever we operate we will be socially and environmentally responsible and we will contribute in meaningful ways to the communities we serve. In many cases, we will invest, stimulate local industries, and create jobs.

This will not detract from our bottom line commitment. Only as a profitable company can we make a real difference. And, over time, only a responsible approach to our global environment will ensure long-term profitability.

BUILDING DAIMLERCHRYSLER. Your company has made a great start. We are coming together as one. The next few years may not be easy, and there may be pitfalls on the way. But DaimlerChrysler has tremendous opportunities and a clear vision that will set us apart. And most of all, we have passionate and inspired people with the spirit and the dedication to make DaimlerChrysler truly extraordinary.

November 17, 1998, saw the birth of DaimlerChrysler – a child with extraordinary genes and extraordinary potential. It has been said that there are only two things we can give our children: one is roots, the other is wings. DaimlerChrysler has roots that are the envy of our industry. Our people are giving it wings.

The Board of Management

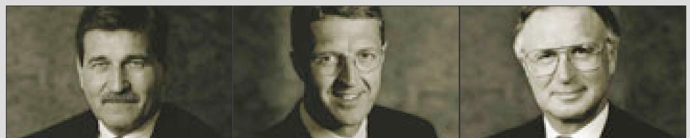
ROBERT J. EATON
Chairman
Appointed until 2001

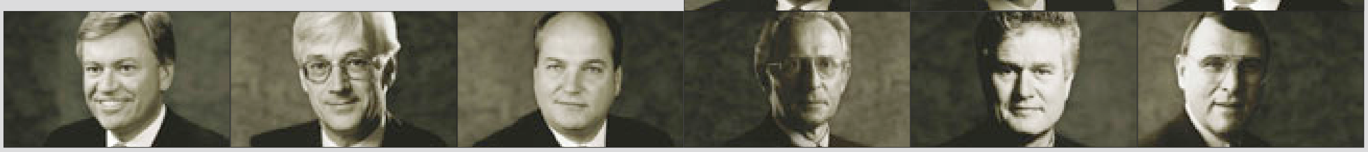
JÜRGEN E. SCHREMPP
Chairman
Appointed until 2003

MANFRED BISCHOFF
Aerospace & Industrial Non-Automotive
Appointed until 2003

ECKHARD CORDES
Corporate Development & IT-Management (incl. responsibility for MTU Diesel Engines and Automotive Electronics)
Appointed until 2003

THEODOR R. CUNNINGHAM
Sales and Marketing Latin America (all automotive brands) and Chrysler Truck Operations
Appointed until 2003





THOMAS C. GALE
Product Strategy, Design and Passenger Car Operations Chrysler, Plymouth, Jeep and Dodge
Appointed until 2003

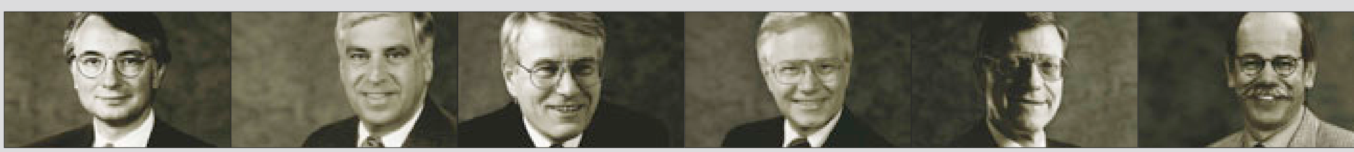
MANFRED GENTZ
Finance and Controlling,
Appointed until 2003

JAMES P. HOLDEN
Brand Management Chrysler, Plymouth, Jeep and Dodge & Sales and Marketing North America (all automotive brands) & Minivan Operations
Appointed until 2003

JÜRGEN HUBBERT
Passenger Cars Mercedes-Benz & smart
Appointed until 2003

KURT J. LAUK
Commercial Vehicles & Brand Management Commercial Vehicles
Appointed until 2003

KLAUS MANGOLD
Services
Appointed until 2003



THOMAS W. SIDLIK
Procurement & Supply for the Chrysler, Plymouth, Jeep and Dodge brands & Jeep Operations
Appointed until 2003

THOMAS T. STALLKAMP
Passenger Cars & Trucks Chrysler, Plymouth, Jeep and Dodge
Appointed until 2003

HEINER TROPITZSCH
Human Resources & Labor Relations Director
Appointed until 2003

GARY C. VALADE
Global Procurement and Supply
Appointed until 2003

KLAUS-DIETER VOEHRINGER
Research & Technology
Appointed until 2003

DIETER ZETSCHE
Brand Management Mercedes-Benz and smart & Sales and Marketing Europe, Asia, Africa, Australia/Pacific (all automotive brands)
Appointed until 2003

ON MAY 7, 1998, the news broke that Daimler-Benz and Chrysler were about to undertake the biggest merger in the history of the automotive industry.

Only five months before this historic announcement, the CEOs of Chrysler and Daimler-Benz, Bob Eaton and Jürgen Schrempp, met on the occasion of the North American International Auto Show in Detroit and privately discussed a common future for their two companies. Soon it became clear that the company leaders were captivated by a common idea: two strong partners with complementary product ranges would join together and achieve significant synergy gains even in the medium term.

The Merger

Completed within less than 200 working days

JANUARY 12, 1998
Jürgen E. Schrempp, Chairman of the Daimler-Benz Management Board, in Detroit for North American International Auto Show, visits Robert J. Eaton, Chairman and Chief Executive Officer of Chrysler Corporation, to suggest discussion of possible merger

MARCH-APRIL 1998
Working teams prepare possible business combination in detail

MAY 6, 1998
Merger agreement signed in London

MAY 7, 1998
Merger agreement announced worldwide: Daimler-Benz and Chrysler combine to form the world's leading automotive, transportation and services company

MAI 14, 1998
Daimler-Benz Supervisory Board agrees to merger

JUNE 16-18, 1998
Daimler-Benz management team visits Auburn Hills

JUNE 25, 1998
Chrysler management team visits Stuttgart

Soon after the May 7 press conference in London had drawn the worldwide attention to DaimlerChrysler, the real work began: members of the executive teams of both companies met in Auburn Hills and Stuttgart to set plans for the merger in motion, discuss strategies and synergies and install the so-called PMI (post-merger integration) phase. During this time, numerous measures were taken to communicate the company's philosophy and make its goals known to the public and, even more importantly, to the shareholders and more than 440,000 employees worldwide.

In just 10 months, DaimlerChrysler was created. Now the integration process is proceeding as a global company comes into being. Most of the major tasks arising from the integration are to be completed by employees on both sides of the Atlantic within two to three years. The Post-Merger Integration Team has the task of coordinating this process.

AUGUST 6, 1998
Announcement that DaimlerChrysler shares will trade as "global stock" rather than American Depositary Receipts (ADRs)
Merger Report published

AUGUST 27/28, 1998
Daimler-Benz and Chrysler management teams meet in Greenbrier, West Virginia, to prepare the merger

SEPTEMBER 18, 1998
Chrysler shareholders approve merger with 97.5 % approval. Daimler-Benz shareholders approve merger with 99.9 % approval

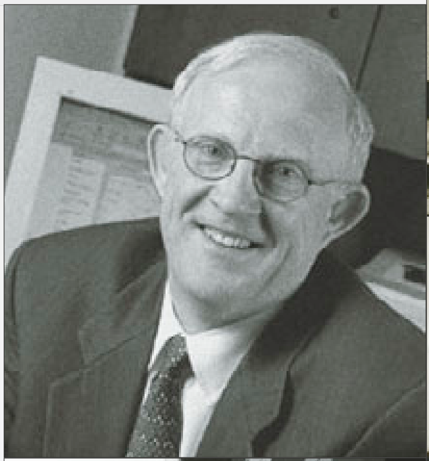
NOVEMBER 9, 1998
Daimler-Benz receives 98 % of stock in exchange offer

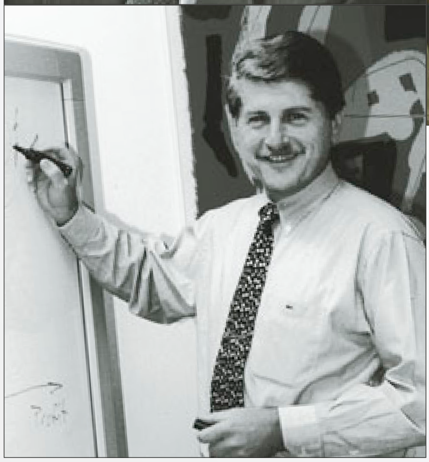
NOVEMBER 17, 1998
DayOne: DaimlerChrysler stock begins trading on stock exchanges worldwide under symbol DCX

DECEMBER 21, 1998
Merger of Daimler-Benz with DaimlerChrysler registered

People of DaimlerChrysler

With more than 440,000 committed employees, DaimlerChrysler is a partnership of talented and creative people who have one thing in common: A passion for designing and manufacturing outstanding products and for providing excellent services. Now it is important to bring together the people of DaimlerChrysler and their ideas – an exchange at all levels. Four examples – as representatives of many more – illustrate this.





Jim Donlon and Jürgen Walker are the first top managers at DaimlerChrysler to move over to the central offices on the other side of the Atlantic at the beginning of 1999: Walker's new office is in Auburn Hills, while Donlon has set up office in Möhringen.

Jim Donlon has already had extremely good experience with German: After all, he met his wife in a German course in college. Now both are having an opportunity to apply in practice what they learned back then; since February 1, 1999, Donlon is head of world-wide Group Controlling, based in Stuttgart. The former chief controller from Auburn Hills intends to work together with his new colleagues to combine the best ideas from Germany and America, and is looking forward to the assignment: "If we can merge the outstanding capabilities of our people, then I am firmly convinced that nothing can stop us. We have the potential to become one of the best companies in the world, if not the very best."

Jürgen Walker, now responsible for financial controlling in Auburn Hills, became familiar with the success of the former Chrysler Corporation three years ago, as the head of Business Management and Controlling Passenger Cars, in connection with a benchmarking project. Even then, the two companies were already the most profitable companies in the passenger car business. "The success models of the two companies were different, but both led to top results," Walker observes. He is enthusiastic about the open working atmosphere in his new venue in Auburn Hills. "The willingness to accept new conditions, subject areas and challenges is remarkable. This attitude will guarantee our success over the long term."

In the Post-Merger Integration teams, experts from Stuttgart and Auburn Hills are pushing hard to advance the merger. Questions about product strategy, purchasing and sales are on the list, along with the integration of the company cultures. Stephanie Dickes from Stuttgart and William E. Burrell from Auburn Hills are working together on the topic of "Vision Roll-Out": How is the vision of DaimlerChrysler to be made transparent for all employees?

Stephanie Dickes is a consultant in the Management Consulting area of DaimlerChrysler AG and her work entails implementing the corporation's strategic goals. She therefore sees as decisive for Vision Rollout the fact that the process relates the goals and values of the new corporation to the concrete strategic requirements of its divisions: "Pure communication without regard to soft facts and behavior would be too little here. Vision Roll-out serves to promote integration within the company," she says. She is enthusiastic about the way the PMI team goes about its work: "The collaboration with my colleagues from Auburn Hills is excellent. Despite the differences in the way we work, we have succeeded in covering new ground and have achieved results together that no longer beg the question whether the German or the American approach is better, but which ask what is the best solution to guarantee quick success. An essential factor in this is 'speed', one of the new values arising from the DaimlerChrysler Vision."

And William E. Burrell, an organization development consultant on the American side of the "Vision Roll-Out", is fascinated by the new task: "The integration of the cultures is a success factor for the merger – we have recognized that and are operating accordingly," he says. Along with the transatlantic videoconferences and more frequent trips to Stuttgart Burrell reads and writes "masses of eMails". For him, working in the PMI team is a new challenge: "Never before have two such successful companies been involved in a merger, and it is a transatlantic one, too, There are no role-models for this kind of work – that is what makes it so interesting." He also sees his job as a contribution to mutual familiarization. "The point is not to make everything the same, but to come to a common understanding on the part of everyone on the staff about the future of DaimlerChrysler. If we preserve our strengths, but at the same time are open to new approaches and ideas - then the success of DaimlerChrysler will be guaranteed."

MERCEDES-BENZ Around the world, the Mercedes star is the symbol for automobiles of the highest quality and safety. The reputation of Mercedes-Benz cars and their proverbial values are the result of more than 110 years experience of automobile making. Diesel-engine passenger cars, crash crumple zones, power steering, antilock brakes and the Electronic Stability Program (ESP) are among the trailblazing developments to hit the street first in a car with the star. Today, a wider range than ever is offered in 190 countries under the Mercedes-Benz brand.

The latest members of the family are the M-Class sport-utility vehicle, the successful off-roader with typical Mercedes road qualities, and the innovative A-Class with its revolutionary space and safety concept. Mercedes-Benz is demonstrating with the new S-Class not only the capability to produce innovative and technically brilliant products, but also elegance and dynamism.

SMART With the smart city coupe, DaimlerChrysler is establishing a new brand with innovative technology in a new market segment. The smart is the intelligent and future-oriented response to urban transport requirements, optimum use of resources and integrated traffic concepts. The smart brand represents a highly individualistic and unusual product that makes a statement through its technical expertise and design concept. With an exterior length of only 2.5 meters (8 feet, 2 inches), the smart needs minimum road space, yet gives two occupants a high degree of safety and the spacious feel of a large sedan. The smart is produced in a completely new industrial park in Hambach, France.

Brands & Products

CHRYSLER Be it a sedan, coupe, convertible or minivan, the Chrysler brand's focus is to provide upscale products that deliver expressive, leading-edge design, fine-tuned athletic handling and performance and refined function that benefits the customer and embodies a passion for engineering. Every year since 1992 there has been a major product introduction for the Chrysler brand. With the introduction of the all-new 1999 Chrysler 300M, LHS and Concorde, Chrysler offers a complete portfolio of cars and minivans that fit the brand's image and appeal.

PLYMOUTH In North America, DaimlerChrysler's Plymouth brand combines contemporary styling, meaningful innovation and value in versatile products that provide a confident and fun driving experience. Besides the head-turning Prowler roadster, the Plymouth brand covers the breadth of the affordable portion of the market in three key segments: compact, sedan and minivan.

JEEP® Jeep, which got its start as a military vehicle, is one of the most widely recognized brands in the world. Today, Jeep vehicles have continued to define the sporty and versatile side of the sport-utility segment worldwide. The all-new 1999 Jeep Grand Cherokee is the flagship of the brand, with new levels of technology innovation, on-road ride and handling, four-wheel-drive leadership, refinement and style.

DODGE Dodge covers a wide range of cars, minivans, sport-utility vehicles and trucks. Common to all is the bold styling of the distinctive grille – the design signature for a brand that continues to enjoy great success in the marketplace. New momentum for the Dodge brand began in 1992 with the introduction of the Viper and the Intrepid. The successful development of the Dodge brand continues. In the past five years, Dodge retail sales have doubled.

Brands & Products

THE COMMERCIAL VEHICLES AND BUSES OF THE MERCEDES-BENZ, SETRA, FREIGHTLINER AND STERLING BRANDS In the market for commercial vehicles and buses, DaimlerChrysler is active worldwide with four brands: Mercedes-Benz, Setra, Freightliner and Sterling. The company is a market leader in Europe, North America and Latin America. In the segments for trucks over six tons and buses over eight tons, Daimler-Chrysler is number one in the world.

DaimlerChrysler is represented in the European market for commercial vehicles by the Mercedes-Benz brand, and for buses by Mercedes-Benz and Setra.

The range of vehicles extends from vans of two tons and above to buses, commercial vehicles and heavy-duty trucks. The current strategy envisages the addition of a city delivery vehicle – a move that would make Daimler-Chrysler a genuine full-line supplier within Europe.

Freightliner Corporation is number one in North America for heavy-duty trucks. The company is based in Portland, Oregon, and manufactures commercial vehicles at locations in the United States, Canada and Mexico. In addition, DaimlerChrysler also manufactures trucks for use in delivery, construction and long-distance hauling under the brand name Sterling.

DaimlerChrysler produces locally built and developed products in the Asia-Pacific region, which represents the world’s largest market for commercial vehicles. It is also the market with the greatest potential in the coming years.

Together with its commercial vehicle brands, Daimler-Chrysler also manufactures a full range of components, including complete powertrains.

DAIMLERCHRYSLER SERVICES With headquarters in Berlin, DaimlerChrysler Services AG (debis) has its main activities in the business units Financial Services, IT Services and Telecom.

By combining the Chrysler Financial Company L.L.C. and debis financial activities DaimlerChrysler Services is now the world´s fourth-largest provider of financial services outside the banking and insurance sector.

Through the continuous improvement of existing business concepts and the development of new ones, DaimlerChrysler Services is strengthening its market position further with a strategy of internationalization. All business units are penetrating new markets worldwide.

DAIMLERCHRYSLER AEROSPACE Today, Dasa is the largest German aerospace company and a major European and international partner. Worldwide the company's employees work in business units such as military aircraft, helicopters, aeroengines, space systems infrastructure, space systems satellites and defense electronics. The Civil Aircraft business is the largest unit in the division. Operating under the name of DaimlerChrysler Aerospace Airbus GmbH, it is responsible for all Airbus activities at Dasa, which has a 37.9% stake in the European consortium Airbus Industrie, the world's second largest producer of commercial aircraft.

RAILWAY SYSTEMS The product portfolio of Adtranz ranges from electric and diesel locomotives, high-speed trains to intercity and regional trains, trams and underground trains, people movers, signal and traffic control systems, fixed installations and infrastructure, as well as servicing and maintenance. Adtranz is the world's largest provider of railway systems with marketing, development and production locations in 60 countries and branch offices in another 40 countries.

AUTOMOTIVE ELECTRONICS TEMIC's product range covers the majority of automotive electronics applications. Among the technical advances that TEMIC has developed is a new crash sensor and a distance control system based on radar and infrared technology. TEMIC has operations in Europe, North America and Asia. In addition to TEMIC, DaimlerChrysler's automotive electronics operations include the Huntsville Electronics Plant in Alabama, which grew out of Chrysler's involvement in the U.S. space program. Today, at two separate sites, Huntsville Electronics manufactures components such as radios, instrument clusters and controllers for the engine body, transmission and transaxle.

DIESEL ENGINES MTU Friedrichshafen and its subsidiaries form the Diesel Engines business unit, which ranks among the world's leading manufacturers of large diesel engines and complex drive systems.

When it comes to diesel engines, MTU takes over at a power level where truck manufacturers top out. The truck model series 500 is one example: MTU took this engine and, in collaboration with U.S. partner Detroit Diesel Corporation, used it as the basis to develop the new model series 2000 and 4000 in 12- and 16-cylinder versions. MTU has a leading postion in the market for ship propulsion systems.

In the field of decentralized energy production, MTU supplies emergency power systems designed to meet the stringent safety standards required for offshore drilling platforms, airports, data centers or nuclear power plants.

B U S I N E S S   R E V I E W

DaimlerChrysler was very successful in 1998. We further improved the earning power of the company: Operating profit rose by € 2.4 billion to € 8.6 billion and net operating income increased from € 5.3 billion to € 6.6 billion. Return on net assets (after taxes) reached 11.6% (1997: 10.2%). Revenues increased by 12% to € 131.8 billion. Almost all business units contributed to this growth. On the basis of this favorable earnings trend, we are proposing at our shareholders' meeting to declare a dividend of € 2.35 per share for the 1998 financial year.

EARNING POWER INCREASED. DaimlerChrysler achieved an operating profit of € 8.6 billion in 1998. This represents an increase of 38% over the comparable figure of € 6.2 billion for 1997. The net operating income, the basis for calculating the return on capital employed (after taxes) increased from € 5.3 billion to € 6.6 billion. This means that at 11.6% (1997: 10.2%) we easily surpassed the minimum yield (9.2%) required to cover capital costs and increase the value of the Group. Since we standardized the controlling instruments in the DaimlerChrysler Group to conform with internal requirements and adjusted the minimum return on investment to the corresponding trends in the international capital markets, these values are not comparable with the figures published by Daimler-Benz and Chrysler in 1997.

Almost all divisions contributed to the rise in operating profit. The growth in the Commercial Vehicles and Aerospace divisions was especially pronounced. The vehicles business contributed around 83% of the operating profit, while the other business areas contributed 17%. (Page 56)

A € 2.35 DIVIDEND PROPOSED. On the basis of the favorable trend in earnings in the operating business, we are proposing to our shareholders to declare a dividend of € 2.35 (DM 4.60) per share for 1998. Former Daimler-Benz shareholders would receive a substantially higher distribution than in the past, while the dividend for former Chrysler shareholders would remain at the high level of previous years.

SLOWER GROWTH OF THE WORLD ECONOMY. The trend in the overall global economic environment was less favorable than the trend of business at DaimlerChrysler. The world economy grew by only 1.8% in 1998, after 3.4% in 1997. This represents the lowest growth rate since 1982. The recession in Japan and the economic and financial crisis in various newly industrializing countries in Asia and in Russia were the main reasons. The business conditions have also become noticeably unsettled in South America as well, particularly in Brazil.

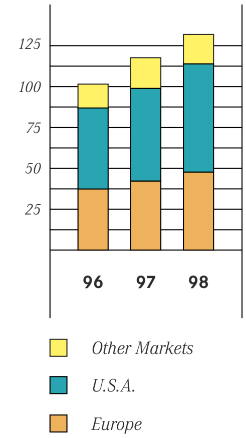
On the other hand, the overall economic situation in Western Europe and in North America continued to be stable. The U.S. economy, as in 1997, grew by 3.9%, supported by persistent vigorous spending by consumers and by high levels of investment activity. In Western Europe, economic performance grew by 2.8%. The main impetus came from the countries in which the euro was introduced on January 1, 1999. Another driving factor in economic growth in Western Europe was increasing domestic demand.

The international exchange rate structure was on average relatively stable in 1998, despite certain fluctuations between the dollar, yen and European currencies during the year. As a result the impact of changes in exchange rates on the business trend at DaimlerChrysler was smaller than in previous years.

Operating Profit in Millions	98 US $	98 €	97 €
DaimlerChrysler	10,082	8,593	6,230
Passenger Cars (Mercedes-Benz, smart)	2,338	1,993	1,716
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	4,942	4,212	3,368
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1,110	946	342
Chrysler Financial Services	765	652	586
Services	460	392	246
Aerospace	731	623	284
Others	(171)	(146)	(225)

Consolidated Revenues

in Billions of €



REVENUES ROSE BY 12% TO € 131.8 BILLION. Despite the strained situation of the world economy, DaimlerChrysler was able to increase revenues by 12% to € 131.8 billion.

Revenue growth in the United States (+ 15% to € 65.3 billion) and in the European Union outside Germany (+ 26% to € 20.3 billion) was especially strong. In Germany, our revenues rose by 19% to € 24,9 billion. With a total of € 21.2 billion, our business volume almost reached the level of 1997 in the other markets, despite the unfavorable economic trends in Japan, Russia and many newly industrializing countries.

Overall, 83% of our revenues were earned in the vehicles business. The Services contributed 6% and the Aerospace Division 7%.

STRONG GROWTH IN ALL DIVISIONS. Almost all of our business units contributed an increase of revenues with double-digit rates of growth.

Revenues in the automotive business reached € 112.1 billion, exceeding the 1997 level by 13%. Overall, DaimlerChrysler sold more than 4.4 (1997: 4.0) million passenger cars and commercial vehicles in 1998. This total included 3.1 (1997: 2.9) million vehicles of the Chrysler, Plymouth, Jeep and Dodge brands; 923,000 (1997: 715,000) passenger cars of the Mercedes-Benz and smart brands; and 490,000 (1997: 417,000) commercial vehicles of the Mercedes-Benz, Freightliner, Sterling and Setra brands.

Sales of Mercedes-Benz passenger cars increased in all important markets, with the exception of Asia. The new S-Class, which was unveiled in October 1998, underscores our leading position in the top segment of the market. With our new smart city coupe, we are offering our customers not only an entirely new automobile, but also a new concept of mobility. (Page 26)

Sales of Chrysler, Plymouth, Jeep and Dodge vehicles rose by 7% to 3,094,000 passenger and light-utility vehicles. We continued to improve our position in the North American market. Sport-utility vehicles, pickups and minivans continued to be especially successful. Among the new product highlights of 1998 were the Chrysler 300M, the Jeep Grand Cherokee and the new compact Dodge and Plymouth Neon. The Chrysler Financial Services Division, whose main priority is to offer financial services to customers and dealers of the Chrysler, Plymouth, Jeep and Dodge brands, also was able to further expand its business. (Page 30)

The Commercial Vehicles Division, with its Mercedes-Benz, Freightliner, Sterling and Setra brands, continued its profitable growth in 1998. Revenues, sales and production reached all-time highs. Business developed especially well in North America where Sterling, a new truck brand, got off to an excellent start. (Page 36)

The dynamic growth of DaimlerChrysler Services continued for the ninth year in a row. The Financial Services, IT Services and Telecom Services business units sharply increased their business volumes. Overall revenues rose by 21% to € 9.6 billion. (Page 42)

Revenues in the Aerospace Division increased by 12 % to € 8.8 billion and incoming orders also reached a record level with € 13.9 (1997: 9.9) billion. Above all, the Commercial Aircraft unit contributed the bulk of the growth in this division, due to the market success of the Airbus. (Page 44)

Adtranz with € 1.7 billion (+2%), Automotive Electronics with € 0.8 billion (+35%), and Diesel Engines with € 0.9 billion (+ 5%), contributed to revenues of the other businesses in the amount of € 3.4 billion. (Page 46)

Revenues in Millions	98 US $	98 €	97 €
DaimlerChrysler	154,615	131,782	117,572
Passenger Cars (Mercedes-Benz, smart)	38,234	32,587	27,555
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	66,101	56,340	51,942
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	27,175	23,162	20,012
Chrysler Financial Services	3,376	2,877	2,443
Services	11,232	9,573	7,924
Aerospace	10,290	8,770	7,816
Others	4,019	3,426	3,896

Investment in Property, Plant and Equipment in Millions	98 US $	98 €	97 €
DaimlerChrysler	9,568	8,155	8,051
Passenger Cars (Mercedes-Benz, smart)	2,341	1,995	1,885
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	4,599	3,920	4,501
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	976	832	601
Services	334	285	193
Aerospace	382	326	255
Others	935	797	635

SERVICES DIVISION RESTRUCTURED. Only a short time after the merger of Daimler-Benz AG into DaimlerChrysler AG was recorded in the Commercial Register on December 21, 1998, as the conclusive legal act of the business combination, we restructured our services business. In January 1999, we announced that DaimlerChrysler would bring together its worldwide financial services business under the roof of DaimlerChrysler Services (debis) AG in Berlin. The integration of Chrysler Financial Company L.L.C. and the Financial Services (debis) business unit created the fourth-largest provider of financial services in the world outside of the banking and insurance sectors, with a contract volume totaling more than € 70 billion.

Also in January, we announced along with our partner Metro that in the spring of 1999 we would place at least 20 percent of the share capital of debitel on the stock exchange. Equal numbers of shares will be offered by Metro and debis. Debitel is the largest network-independent telephone company in Europe. Even after listing on the stock exchange, debis will remain the largest shareholder in debitel.

PORTFOLIO SELECTIVELY IMPROVED. We also improved our business portfolio relating to earnings and risk factors in 1998 in order to strengthen the competitiveness and earning power of our business units.

On October 31, 1998, we acquired the shares in Micro Compact Car (MCC) AG of Biel (Switzerland) held by the Swatch Group AG in the amount of 19% with a view to better maximizing the strategic opportunities of the smart brand as one of the six passenger automobile brands of DaimlerChrysler. As a result, MCC is now a 100 percent subsidiary of DaimlerChrysler.

We further expanded our position in the North American market for medium and heavy-duty commercial vehicles with the acquisition of the Thomas Built Buses Corporation, with headquarters in North Carolina in the United States.
During the year under review, our Aerospace Division Dasa acquired the defense electronic business of Siemens and thereby decidedly strengthened its position in the European defense industry. Moreover, the Franco-British Matra BAE Dynamics has had a 30% participating interest in LKF GmbH since early 1998. This constitutes an important step forward in the Europeanization of our defense technology.

On the road toward the creation of European structures in the aerospace industry, we have agreed with the British GEC, the French Lagardère Group, and Finmeccanica to bring together the space operations activities.

In January 1999, we agreed that DaimlerChrysler would acquire the share of ABB in the 50/50 Adtranz joint venture at a price of US $ 472 million. By fully integrating this company, which is a global leader in railroad technology, in our business portfolio and our overall business strategy, we will be able to forge a more deliberate and rapid restructuring of Adtranz.

MORE THAN 19,000 NEW JOBS. In 1998, adjusted for changes in the consolidated group, we were able to create 19,000 new jobs due to positive business trends in all areas of DaimlerChrysler. The number of employees rose to 441,502. The Service Division employed almost 5,000 people more than at the end of 1997. Additional personnel were also needed in the vehicle business and in the Aerospace Division to handle increased demand. The number of employees rose by 7,764 to 233,030 in Germany and by 5,785 to 117,048 in the United States.

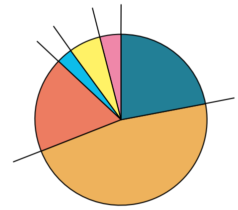
VALUE-ADDING PARTNERSHIPS EXPANDED. DaimlerChrysler purchased goods and services worth € 79.6 billion in 1998 (1997: € 75.8 billion).

In accordance with our philosophy of integrated value-adding partnerships, cooperation with our suppliers continued to intensify and great successes were also achieved in numerous product and investment projects. The TANDEM and the SCORE programs – similar in their approach - were combined in the

Research and Development costs
in Millions

	98 US $	98 €	97 €
DaimlerChrysler	7,853	6,693	6,501
Passenger Cars (Mercedes-Benz, smart)	2,265	1,930	1,583
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	1,989	1,695	1,512
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	837	714	602
Aerospace	2,402	2,047	2,233
Others	360	307	571

Purchasing Volume
€ 79.6 Billion (1997: € 75.8 Billion)



Passenger Cars (Mercedes-Benz, smart)	22 %
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	47 %
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	18 %
Services	3 %
Aerospace	6 %
Other	4 %

context of the Extended Enterprise concept. This provides the groundwork for the development and ongoing cultivation of our long-term partnerships with excellent suppliers. Within the Global Procurement and Supply organization, synergies were realized and projects to achieve cost reductions were initiated. The development of common commodity and supplier strategies as well as common operative processes will play a major role in that process. These common strategic elements will be implemented throughout our worldwide procurement organization.

€ 8.2 BILLION INVESTED IN PLANT, PROPERTY AND EQUIPMENT. To secure the future of DaimlerChrysler, we invested € 14.9 billion in 1998 in plant, property and equipment, as well as in research and development.

DaimlerChrysler's overall investment in plant, property and equipment in 1998 increased to € 8.2 billion (€ 8.1 in 1997). More than 82% of this amount was invested in the vehicle business. Key projects in the Mercedes-Benz and smart Division (€ 2.0 billion) were a new technology center in Sindelfingen, a new plant for the A-Class in Brazil and preparations for producing the new S-Class. Preparations for producing the numerous new models, a transmission plant in Kokomo/Indiana and a new assembly plant for the Dodge Dakota in Campo Largo/ Brazil were major priorities of the Chrysler, Plymouth, Jeep and Dodge brands (€ 3.9 billion). In the Commercial Vehicles Division (€ 0.8 billion), major investments were made in connection with the introduction of the Atego, along with plant modernization.

A total of € 0.3 billion (€ 0.3 billion in 1997) were invested in plant, property and equipment in DaimlerChryslers' Aerospace Division. Expansion of capacity in the Airbus Program was a priority. The major part of the investment volume in the services business area in the amount of € 0.3 billion was made in the IT Services business unit.

€ 6.7 BILLION FOR RESEARCH AND DEVELOPMENT. In 1998, there were more than 36,000 employees in research and development at DaimlerChrysler worldwide, underscoring the importance of R&D within the framework of our value-based management. The objective is to ensure a more efficient use of resources throughout the company by developing new forms of interdisciplinary cooperation and increasingly integrating suppliers into the process. Expenditures for R&D increased to € 6.7 billion (€ 6.5 billion in 1997). Of this amount, € 1.7 billion (1997: € 2.1 billion) went to projects under contract with third parties, especially in the Aerospace Division.

We used more than 85% of the funds for our own projects to ensure the future of our vehicle business divisions; 7% of expenditures on research and development went to the Aerospace Division, and 4% to other business areas. Research and development investment in Adtranz amounted to € 82 million, in automotive electronics to € 47 million and in diesel engines to € 56 million.

Our main activities in the vehicles divisions were the new C-Class and S-Class Coupe models from Mercedes-Benz and a new Chrysler Sebring, a completely new minivan and the successor to the Jeep Cherokee. The lion's share of research and development investment in the Commercial Vehicles Division was spent on product innovations in the Trucks Europe, vans Europe and the powertrain units. In the Aerospace Division, the main R&D priority was the on-going development of the Airbus program, the development of new aircraft engines and new guidance and communications systems.

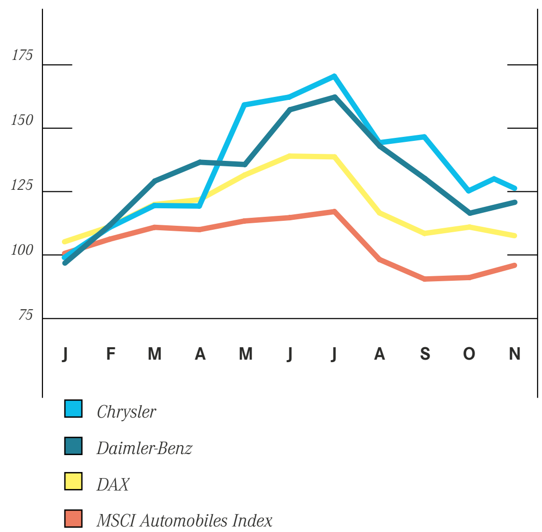
In what turned out to be a turbulent year on the stock exchange, shares in both Daimler-Benz and Chrysler showed a positive development in 1998. At the close of trading in November, shares were up by more than 20% compared with the end of 1997. On November 17, 1998, the new DaimlerChrysler shares were quoted on the stock exchanges for the first time. As the first globally registered stock, it is now being traded on 21 stock exchanges in eight countries. The share capital of € 2.6 billion is distributed among more than 1.4 million shareholders.

SHARP SWINGS IN SHARE PRICES. In 1998, share prices in Western Europe and North America continued their decade-long upward trend. On the other hand, Asian markets declined for the third year in a row. In the first half of the year, high levels of liquidity and lower interest rates helped produce an unexpectedly strong rise in Western stock markets. The subsequent decline in share prices was triggered by difficulties in Russia, which, together with a financial crisis in Latin America and the already prolonged crisis in Asia, resulted in a loss of confidence on the part of investors. Beginning in October, a market recovery began to take hold in Western stock markets after interest rates were reduced in the United States and Europe. In New York, the Dow Jones index rose by 16% in the course of the year. The London FTSE-100 Index rose by 15% and the German stock exchange index (DAX) by 18.5%. On the other hand, the Japanese Nikkei average fell by 9% and closed with the lowest year-end value since 1985.

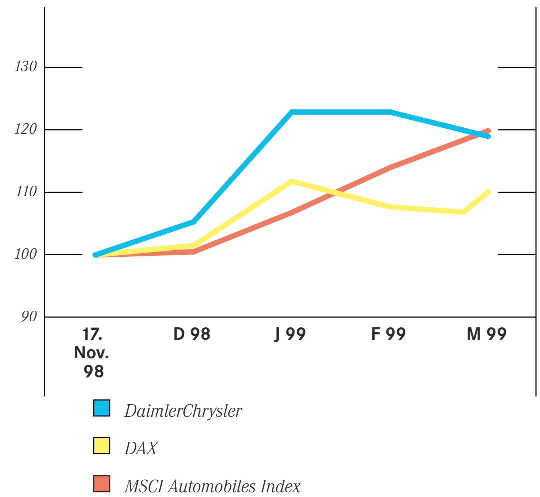
TREND IN SHARE PRICES OF DAIMLER-BENZ AND CHRYSLER STOCKS. Daimler-Benz shares since late February 1998 have consistently outperformed the DAX. In the wake of the announcement of the merger of Daimler-Benz and Chrysler on May 7, Daimler-Benz was quoted at more than DM 200 (about € 102). After adjustments for the special distribution of DM 20 (€ 10.23) per share and for the capital increase of June 1998, share prices reached a new historical high at the end of July.

After the announcement of the merger, Chrysler share prices rose more steeply than those of Daimler-Benz. In late July, the former reached an annual high of almost US $61 per share. Thereafter, both share prices followed almost in tandem the downward-trend on international stock exchanges. The decision of Standard & Poor`s not to include DaimlerChrysler shares in

Stock Market Performance 1998



Share Price Index (as of Nov. 17, 1998)

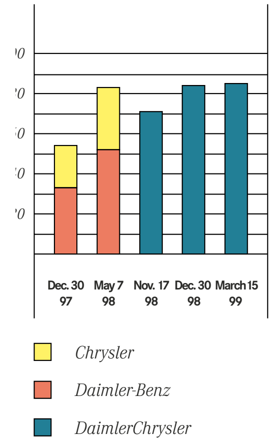


Statistics per share

	98 US $	98 €
Net income (before merger costs)	6.55	5.58
Net income	6.05	5.16
Net income (diluted)	5.91	5.04
Dividend	2.76	2.35
Stockholders' Equity (12/31)	35.57	30.31
Number of shares (12/31) in millions		1,001.7
Share price Year-end	96 1/16	83.60
High*)	108	94.20
Low*)	83 7/8	70.60

*) November 17, 1998 until March 15, 1999.

Market Capitalization
(end of reporting period)
Billions of €



the S&P 500 index triggered short-term pressure on share prices. Following the recovery of the stock markets, in mid-November, Chrysler share price showed an increase of 26% compared to the last day of 1997, and Daimler-Benz share price increased by 21%.

NOVEMBER 17, 1998: DAY ONE. Trading in shares of DaimlerChrysler began on November 17, 1998, on international stock exchanges. As the first globally registered stock, it is traded in eight countries on 21 stock exchanges. The identity of shareholders is stored in an electronic share register.

The DaimlerChrysler stock was off to a good start on November 17, 1998, with a Day One share price of DM 139.30 (€ 71.20) in Frankfurt and US $83 13/16 in New York. Thereafter, it rose more strongly than the DAX and the MSCI Automobile index, an international composite. On March 15, 1999, the share price in Frankfurt reached € 84.75, representing an increase of 19% over the first day of trading in November 1998. In New York, the DaimlerChrysler stock was quoted at US $92 5/16 (+ 10%) as of March 15, 1999.

"Day One" for the DaimlerChrysler shares on November 17, 1998 at the New York Stock Exchange.

In mid-March 1999, the DaimlerChrysler stock was the most heavily weighted in the DAX at 12.1%. In the European Euro Stoxx 50 Index, its weighting was 5.9%, and in the Stoxx 50, which also includes UK and Swiss companies, it was weighted at 4.1%. The share capital of our company amounts to € 2.56 billion. The number of shareholders totals more than 1.4 million; the largest shareholders are the Deutsche Bank with 12% and the State of Kuwait with 7%. More than half of the share capital resides in the hands of Europeans and approximately 25% in the hands of US investors.

INVESTOR RELATIONS EXPANDED FURTHER. We further intensified contacts with investors and financial analysts in 1998 and to an ever-increasing degree involved the operational management in discussions. Investor Relations was confronted with an especially daunting task since Daimler-Benz and Chrysler, and later DaimlerChrysler, were being closely monitored by the capital markets. The main reasons for this close scrutiny were the positive business trends, the special distribution carried out by Daimler-Benz, the ensuing increase of share capital and finally the corporate merger itself. In June 1998, shortly before the capital increase, we organized a worldwide road show.

As a result of the increase in capital stock amounting to approximately € 3.8 billion, the largest ever in the history of German industry, we were able to bring the equity capital of Daimler-Benz back to the level prior to the special distribution. An additional challenge was the stock exchange offer to shareholders of Daimler-Benz supported by comprehensive marketing and communications activities. In September and October 1998 we organized another road show in conjunction with the exchange offer, in the course of which we held more than 50 separate conversations and a great number of presentations and conference calls, enabling us to reach more than 1,200 institutional investors, representing almost 60% of the capital of Daimler-Benz.

DaimlerChrysler expects to increase both sales and profitability in the years to come. It is expected that all areas of business will contribute to the additional growth. By finding synergies from the merger of the two companies and continuing to make extensive funding available for investments and research and development, we are creating the conditions for profitable growth. By the year 2001, we intend to increase our business volume by more than € 20 billion over the 1998 figure to € 153 billion.

STABILIZING WORLD ECONOMY. For 1999 and the coming years, we expect that the world economic environment as a whole will again become stable. While it is possible that economic growth in North America and Western Europe may initially lose some of its dynamism, we anticipate that these key markets for DaimlerChrysler will show steady growth. Despite extensive public programs, the Japanese economy will probably be slow to overcome its recession. The Asian emerging markets are thought to have traversed their economic low point by now, while in South America – starting from Brazil – further deterioration in the overall economic situation must be expected.

In our view, the introduction of the euro will help to stabilize exchange rates. Overall, we expect the euro to lead to a strengthening of the position of DaimlerChrysler in international competition.

A SLIGHT WEAKENING IN THE DEMAND FOR AUTOMOBILES. After the extraordinarily high level of 1998, we expect a slight weakening in the automobile business in Western Europe and North America. In subsequent years, moderate growth should be possible again in these markets. Especially individual niche markets such as minivans, off-road vehicles, pickups, coupes and convertibles will show above average growth. In Asia, the demand for automobiles is thought to have bottomed out by now, but a fundamental improvement in the market situation cannot be anticipated until the medium term. In South America, the prospects for growth continue to be favorable, but in the current year, because of the economic crisis in Brazil, we expect further declines in the demand for automobiles.

DAIMLERCHRYSLER ON THE GROWTH TRACK. Because of the high level of orders and the positive business trend in the first months, we expect DaimlerChrysler revenues to climb to € 137 billion in the current year. A large number of new and appealing products will enable us to do better than the competition in many of our business units. Strict cost management in all fields of business and the synergies which we are achieving through the integration of Daimler-Benz and Chrysler are favorable conditions for growing profitably and increasing the company's earning power further in the coming years. Significant changes in exchange rates, especially between the euro and the U.S. dollar may, however, have an impact on revenues and profits. This also applies if the general economic conditions should exhibit significantly more negative trends in important markets than we have assumed in our planning.

FURTHER GROWTH IN THE AUTOMOTIVE BUSINESS. The Mercedes-Benz and smart Passenger Car Division expects to maintain steady growth in sales by the year 2001. Because of the appeal of its products, the division should achieve significant growth even if market volumes stagnated or declined slightly.

The Chrysler, Plymouth, Jeep and Dodge brands should be able to maintain their high sales levels in 1999, even if the overall trend in North America were somewhat weaker. The innovations for the 1998 and 1999 model year, such as the Chrysler 300M sedan, the new Jeep Grand Cherokee and the compact Neon, will be important contributors. Numerous additional new products should enable further increases in sales and revenues in the years to follow.

In the coming years, the Commercial Vehicle Division will focus on its product drive and on internationalization. The main area of growth will be in our North American business, which we are carefully expanding with the new Sterling brand and the integration of the Thomas Built Buses Corporation. As a system supplier of major aggregates and components for commercial vehicles, the powertrain unit will contribute to the growth of the division.

POSITIVE PROSPECTS IN THE OTHER DIVISIONS AS WELL. DaimlerChrysler Services plans to utilize the favorable general conditions in the international service markets to continue its dynamic growth. In the current year the division anticipates an increase in sales to around € 11 billion. It should be noted in this connection that the former Chrysler Financial Services will contribute approximately € 3 billion while revenues from debitel (1998: € 1.5 billion) are not included in the projected turnover as a result of its listing on the stock exchange.

In the Aerospace Division, we have improved our earning power considerably in recent years. Extensive order volumes, especially for commercial aircraft and participation in important international programs in defense and space technology are establishing a solid foundation for further growth.

Revenues

in Billions

	1999 E €	2001 E €
DaimlerChrysler	137	153
Passenger Cars (Mercedes-Benz, smart)	37	39
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	54	60
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	23	25
Services[1]	11	15
Aerospace	9	10
Others[2]	6	8

Investments in Property, Plant and Equipment

in Billions

	1999 E €	1999-2001 €
DaimlerChrysler	9.0	23.7
Passenger Cars (Mercedes-Benz, smart)	2.2	5.9
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	4.3	11.0
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1.1	3.3
Services[1]	0.3	0.8
Aerospace	0.5	1.4
Others[2]	0.6	1.3

[1]) Including Chrysler Financial Services, excluding debitel.
[2]) Including Potsdamer Platz, Headquarters, Adtranz 100%.

Our other operational business units are also planning for significant growth by the year 2001. Following the complete acqusition by DaimlerChrysler, we expect to be able to guide Adtranz towards profitable growth with a new management structure and a leaner organization. The Automotive Electronics unit will continue to benefit in coming years from the increasing use of electronic components in automobiles. The MTU/Diesel Engines unit will continue to pursue the growth strategy already begun - the development from a niche vendor to a full-line supplier.

INTEGRATION PROJECTS TO BE LARGELY COMPLETED BY 2001. Integration within DaimlerChrysler is being coordinated by a Post-Merger Integration Team. We had already identified the major areas of integration before the merger. The integration projects are expected to be largely completed by the end of 2001. In the current year we are already realizing synergies with a value of € 1.3 billion and in the medium term we are expecting synergy gains of more than € 3 billion per year.

STRATEGIC POSITIONING IN ASIA. Despite a difficult market situation, our activities to enhance our market presence in Asia continue.

Because of the long-term significance of the Asian region for DaimlerChrysler and to secure market closeness, we established five regional centers in 1998 (North East Asia, South East Asia I and II, Japan, and Australia/Pacific). Together with the individual divisions they are responsible for the success of DaimlerChrysler in those areas.

EXPENDITURES TO SECURE THE FUTURE. In the 1999 to 2001 planning period, DaimlerChrysler expects to spend around € 40 billion (including third party contracts € 46 billion), or around € 13 billion annually, for research and development and investment in fixed assets. The focus of the investments will be on product launches and facelifts in passenger cars and commercial vehicles, and enlarging production capacities in the vehicle business and for commercial aircraft. Important projects in research and development are work on the successors to the C- and E-Class of Mercedes-Benz, the Dakota truck and the Chrysler minivan. In addition, the Maybach luxury sedan is being developed. Heavy expenditures are also planned in the Aerospace Division, especially for the development of new Airbus models.

Research and Development [1]

in Billions

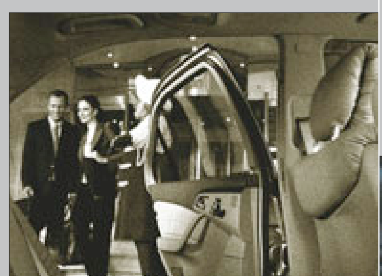
	1999 E €	1999-2001 €
DaimlerChrysler	5.5	16.6
Passenger Cars (Mercedes-Benz, smart)	1.9	5.5
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	1.6	5.2
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	0.8	2.2
Aerospace	0.5	1.6
Others[2]	0.7	2.1

[1]) Excluding third party contracts.
[2]) Including Headquarters, Adtranz 100%.

Mercedes-Benz

PASSENGER CARS

smart



Climb in and enjoy exclusivity: The new S-Class allows you to experience the future of the automobile today. With more than thirty innovations, this car once again sets new standards in comfort, safety and driving enjoyment.

1998 was extraordinarily successful for the Mercedes-Benz Passenger Cars and smart Division, setting new records for revenues and sales. The Division's contribution to the operating profit of the company rose to € 2.0 billion (1997: € 1.7 billion). Due to the many new products brought to market in the past few years, our market position worldwide has been significantly improved. Moreover, dynamic and attractive passenger cars such as the new S-Class have strengthened the image of the Mercedes-Benz brand. With the launch of the smart city coupe in 1998, we introduced a highly innovative vehicle and a new brand for a wholly unprecedented passenger transportation concept.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	2,338	1,993	1,716
Revenues	38,234	32,587	27,555
Investments in Property, Plant and Equipment	2,341	1,995	1,885
R&D	2,264	1,930	1,583
Production (Units)		947,517	726,686
Sales (Units)		922,795	715,055
Employees (12/31)		95,158	91,753

DIFFERENCES IN MARKET DEVELOPMENT. Development varied significantly among the most important markets for the division in 1998. New registrations rose noticeably in Western Europe as well as in Germany. The market segments in which we compete especially profited from this trend. But on the other hand, there was a definite decline in demand for luxury cars in Asia and South America. In North America, luxury passenger car sales were slightly higher than in 1997.

RECORD HIGHS IN SALES AND REVENUES. In 1998, the division substantially increased its sales of the Mercedes-Benz and smart brands in all important markets. At € 32.6 billion (1997: € 27.6 billion), revenues reached an all-time high. Revenues of € 6.7 billion in the United States surpassed the record set in 1997 by 39%. We also achieved significant growth in Western Europe outside Germany (up 28% to € 8.2 billion). In Germany, revenues were up 14% to € 12.6 billion.

In 1998, 922,800 passenger cars, station wagons, sport-utility vehicles, and smart city coupes (1997: 715,100 units) were sold, easily surpassing 1997 records.

OPERATING PROFIT INCREASED TO € 2.0 BILLION. Despite significant expenses related to the introduction of new products, in particular the new S-Class and smart, the division was able to increase its operating profit by 16.2% to € 2.0 billion. In addition to the higher sales volume, important factors included further improvements in the cost structure and consistently favorable exchange rates.

MERCEDES-BENZ: MARKET POSITION CONTINUED TO IMPROVE. With the exception of the Far East, sales of Mercedes-Benz passenger cars increased in all important markets. As a result, we expanded our market share worldwide to 2.2% (1997: 1.7%). We were able to reach entirely new customer groups with the most attractive product program in the history of the Mercedes-Benz brand. The M-Class was especially successful with sales of 63,800 units. We sold about 9,000 CLK convertibles since its introduction in June, and from October to the end of year, we delivered more than 10,300 units of the new S-Class. In Germany, sales were up 26% to a new high of 347,100 vehicles. Market share rose to 9.6% (1997: 8.0%). We recorded the highest growth of all large European carmakers with a 38% increase

Optimum safety, superb comfort, exemplary solidity and – last but not least – unspoiled driving enjoyment. The new Mercedes-Benz CL meets such exacting standards thanks to its ploneering technology.

Western Europe outside Germany. In the United States sales of Mercedes-Benz passenger cars reached 170,200 vehicles (up 39%). In terms of revenues, we were the most successful luxury brand in the United States with a 7.6% market share. Despite the unfavorable market situation in Japan, we managed to sell more than 40,000 vehicles and achieved a share of the luxury class market of 12.8%. Mercedes-Benz was the most successful import brand in Japan.

SUCCESSFUL YEAR FOR THE A-CLASS. The A-Class, equipped with the most state-of-the-art standard safety package of all compact and mid-size cars, has been enjoying extremely strong demand. The innovative concept and design, combined with a favorable price/performance ratio, enabled sales to soar to 136,100 units, earning the A-Class a strong position in the market within one year. In Japan, it was awarded the prize for the best import car of the year. In 1999, we expect to see additional sales growth due to new engine versions and equipment options.

NEW S-CLASS SETS STANDARDS. The new S-Class features more than 30 technical innovations and is a trendsetter in passenger car technology. Peak values in aerodynamics and a reduction in weight of approximately 660 pounds excluding options offer fuel savings of up to 17% compared with its predecessor model while at the same time its performance rating is significantly higher. Thanks to an automatic cylinder cut-off system in the S 500, fuel consumption can be reduced by a further 7% on average. The air suspension system combined with the adaptive shock absorber system (AIRmatic), ventilated luxury seats, a chip card in place of a door and ignition key (Keyless Go) and the distance control system (Distronic) offer our customers the option of extra comfort. In addition to safety and comfort, the classic characteristics of every Mercedes-Benz, the new model also provides more driving pleasure than ever before in this series. The new S-Class has not only been enthusiastically received by traditional customers, but, as the first market statistics demonstrate, it is also capable of attracting customers previously attached to other luxury brands.

M-CLASS EXTRAORDINARILY SUCCESSFUL. The overwhelming success of the M-Class in North America following its market introduction in September 1997 continued in Europe in the spring of 1998. Around the world, customers appreciate the excellent price/value ratio of the M-Class. The exceptional image enjoyed by the M-Class results from its exemplary safety characteristics, future-oriented design, and the combination of pronounced all-terrain maneuverability with sedan-like on-road qualities. Due to high demand, M-Class capacity at our U.S. production facility in Tuscaloosa, Alabama, was boosted from 65,000 units to more than 80,000 units in 1999. Moreover, beginning in mid-1999, up to 30,000 additional vehicles per year will be manufactured for the European market at Steyr-Daimler-Puch in Graz, Austria.

A-CLASS PRODUCTION STARTED IN BRAZIL. The new A-Class production facility in Juiz de Fora, Brazil, started regular production in February 1999. The new plant is an important step toward developing the South American market for the Mercedes-Benz brand. After the final expansion phase, it will have a capacity to produce up to 70,000 vehicles each year. Completion of the project in only two years was possible due to the joint efforts of an international team from the United States, Europe and Brazil. To ensure that the high quality standards of Mercedes-Benz are also maintained in Brazil, training employees for that location was started well in advance. More than 150 specialized employees from Brazil were trained in our German assembly plants in Rastatt, Sindelfingen and Bremen, and 160 trainers from Germany will be working in Brazil during the startup phase.

INVESTMENTS BOOST INNOVATIVE STRENGTH. We are investing € 0.7 billion in a new technology center in Sindelfingen to be completed in the year 2000 for the development of Mercedes-Benz passenger cars. The entire passenger car development will thus be concentrated at the two locations of Sindelfingen and Untertürkheim instead of the previous 18. Consolidating our development capacities and using state-of-the-art technologies will open up additional opportunities for boosting our development output. We will also achieve synergies by working together with the technology center in Auburn Hills.

The 1,500 acre Mercedes-Benz testing facility in Papenburg, Germany, which was opened on October 8, 1998, offers product developers entirely new possibilities. For example, a number of different processes can now be carried out simultaneously instead of sequentially, which significantly shortens development times.

MOBILO-LIFE LONG-TERM GUARANTEE INTRODUCED. In 1998, the Mercedes-Benz brand set new standards not only in new products, but in the service sector as well. Mercedes-Benz is the first brand to offer a standard life-long no-rust-thru and mobility guarantee. It applies to vehicles registered for the first time after October 24, 1998. The Mobilo-Life long-term guarantee is effective in 23 European countries up to the fourth year from registration, providing the car is regularly serviced at an authorized Mercedes service center. The long-term guarantee is then effective for up to another 30 years.

MERCEDES-BENZ MAYBACH – A NEW DIMENSION IN AUTOMOBILE DESIGN. After we first revealed the design prototype of the Mercedes-Benz Maybach to the world in Tokyo in October 1997, we decided in July 1998 to develop this top model into a production version. The Maybach will continue the tradition of large chauffeur-driven limousines with the innovative state-of-the-art technology of Mercedes-Benz passenger cars and introduce a new dimension in the luxury automobile class.

SMART CITY COUPE SUCCESSFULLY LAUNCHED IN EUROPE. The smart city coupe has been delivered to customers in nine European countries since early October 1998. The launch not only put a completely new automobile onto the streets of Europe, but at the same time it heralded the birth of a new brand and an entirely new, single-level distribution network. It was nominated as the most environmentally friendly car of the year for 1998 by the German transport group Verkehrsclub Deutschland (VCD) and achieved by far the best results in the magazine “AutoBild’s” comparison crash test in the compact car segment. These qualifications are convincing proof of the trendsetting concept of the city coupe.

At the Paris Motor Show in October 1998, the smart was introduced for the first time as a turbodiesel with common rail direct injection (CDI). With a fuel consumption rating of only 69.2 miles per gallon, this vehicle will be available at the end of 1999. In addition, the smart range is to be expanded with an attractive convertible version. In the year under review, 21,200 vehicles rolled off the assembly line at our plant in Hambach, France.

SMART MOBILITY. In addition to the vehicle itself, we are also developing a comprehensive mobility concept in cooperation with AVIS, various municipalities and other transit operators, to create special advantages for smart users in the urban environment. Together with our partners, we are offering innovations such as smartmove & More (rental cars for smart customers with special transportation needs), smartmove Parking (compact parking spaces for micro-compact cars) and other attractive mobility services.

FORMULA ONE WORLD CHAMPION AND FIA GT CHAMPION. With 21 victories in 45 races in three series, 1998 was the most successful motor sports year in the history of Mercedes-Benz. One of the most important achievements was the victory in the driver and designer world championships in Formula One: Mika Häkkinen became world champion with eight victories in 16 races. David Coulthard finished third in the drivers' world championship. West McLaren Mercedes won the designer title with a total of nine first places. We also won two races in the CART series in the United States. In the FIA GT championship, Klaus Ludwig and Ricardo Zonta won the driver championship in a Mercedes CLK-LM, and AMG Mercedes collected the team title with a total of 10 victories in 10 races.

smart – the ideal two-seater city coupe. A statement of individual mobility in inner city areas. A car that gives you extra freedom without sacrificing safety and comfort.

Passenger Car Sales 1998	1,000 Units	98:97 (in %)
Mercedes-Benz	906	+27
A-Class	136	+ .
C-Class	384	+10
of which CLK	62	+182
SLK	54	+17
E-Class	259	-6
S-Class/SL	58	-7
M-Class	64	+291
G-Class	4	+8
smart	17	+ .
Sales worldwide	923	+29
Europe	640	+34
of which Germany	355	+28
Western Europe (excl. Germany)	275	+42
North America	183	+40
United States (retail sales)	170	+39
South America	8	+28
Far East (excl. Japan)	14	-49
Japan (new registrations)	40	- 3

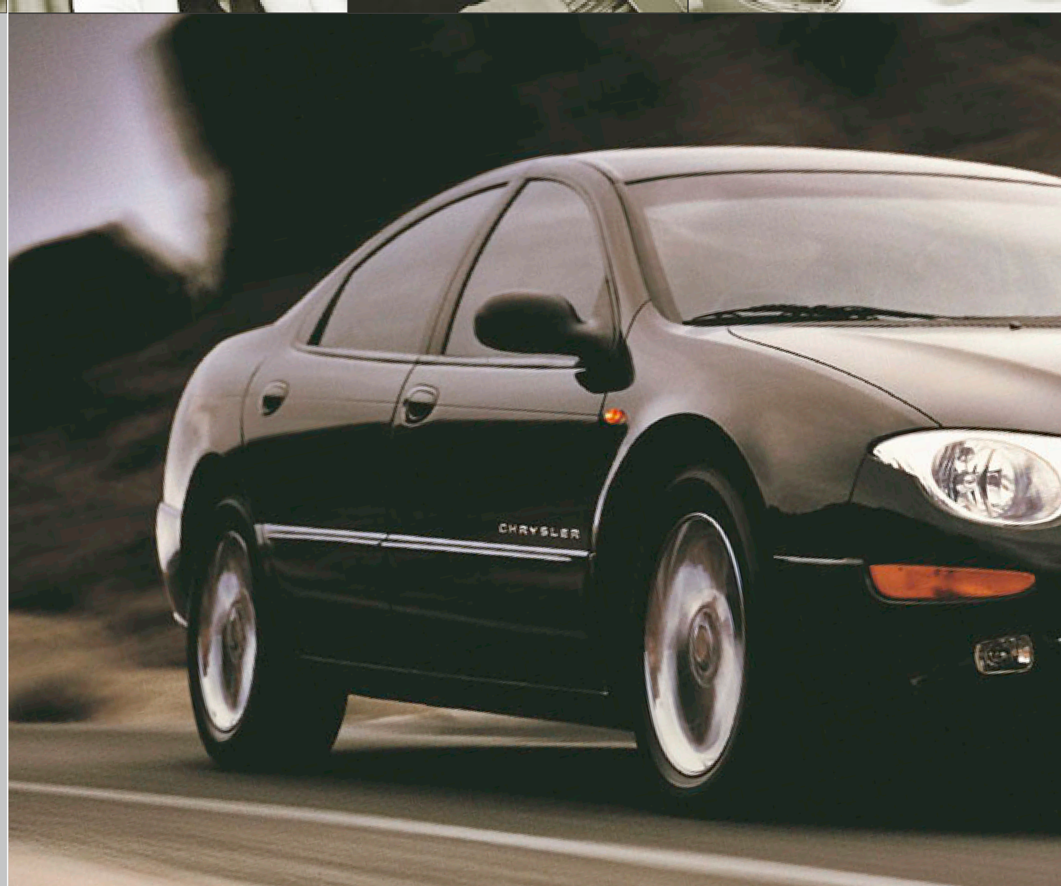
Chrysler Plymouth

PASSENGER VEHICLES

Jeep® Dodge




The new Chrysler 300 M – The continuation of the traditional 300 series. A comfortable and roomy sedan for driving pleasure in the city and on long trips. With a powerful 2.7 or 3.5 liter V-6 engine and the advanced "Cab Forward Design" for improved legroom and greater driver comfort.



The Chrysler, Plymouth, Jeep and Dodge brands recorded their best year ever in 1998, setting several sales records, including all-time highs in trucks and sport-utility vehicles. This helped the brands increase revenues to € 56.3 billion in 1998, compared to € 51.9 billion in 1997. The operating profit of the Division increased to € 4.2 billion, compared to € 3.4 billion in 1997. In the past few years, all-new and redesigned products have helped the brands to expand their market position. Symbolizing the success of recent quality improvement initiatives are the Chrysler Cirrus and Concorde. Both were recognized by J.D. Power and Associates for having the best quality in their respective categories in the Initial Quality Rankings for 1998.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	4,942	4,212	3,368
Revenues	66,101	56,340	51,942
Investm. in Property, Plant, Equipment	4,599	3,920	4,501
R&D	1,989	1,695	1,512
Production (Units)		2,982,644	2,773,264
Sales (Units)		3,093,716	2,886,981
Employees (12/31)		123,180	118,639

FAVORABLE MARKET SITUATION IN NORTH AMERICA. Strong economic growth, falling car prices and low interest rates resulted in an overall rise in sales of passenger cars and light trucks in North America in 1998. In particular, sales of sport-utility vehicles and pickups benefitted the most from the strong market, while sales of passenger cars fell slightly. DaimlerChrysler is well positioned in the highest growth segments with its Chrysler, Plymouth, Jeep and Dodge brands. We are therefore able to take part at a higher level in the favorable market development in North America. In contrast, international business was negatively impacted by the economic and financial crisis in Asia.

NEW RECORDS IN REVENUE AND PRODUCTION. The Chrysler, Plymouth, Jeep and Dodge brands have their strongest presence in the North American markets of the United States, Canada and Mexico. Revenues of the Division totalled a new record of € 56.3 billion (1997: € 51.9 billion). Of total revenues 93% were generated in North America, 3% in Europe and 4% in the rest of the world.

Worldwide production in 1998 totaled 2,982,600 vehicles (1997: 2,773,300). Car production in 1998 was 865,300 (1997: 778,200); truck production totaled 2,117,300 (1997: 1,995,100).

FURTHER IMPROVEMENT IN EARNINGS SITUATION. The operating profit of the Division increased from € 3,368 million in 1997 to € 4,212 million in 1998. Higher sales volume and lower warranty costs were the primary positive contributors. In contrast to this were higher costs for purchase incentives, which are attributed in particular to strengthened competitive conditions in North America.

The Jeep® Grand Cherokee: with the best off-road qualities – and a great role-model for luxurious sport-utility vehicles for all leisure activities.

MORE THAN 3 MILLION VEHICLES SOLD WORLDWIDE IN 1998. U.S. sales (shipments) reached 2,548,900 vehicles in 1998. These were 10% ahead of 1997's total of 2,312,400 units. Truck sales, including minivans and sport-utility vehicles, rose to 1,784,000 units, a 9% increase over 1997. Within this category, sport-utility vehicles accounted for 626,800 units, a 20% increase over 1997. Car sales reached 764,900 vehicles, a 12% increase over 1997.

In Canada, sales (shipments) totaled 261,800 vehicles, a decrease of 2% compared to 1997. Truck sales in 1998 were 174,500 units, a 3% decrease compared to 1997. Car sales reached 87,300 in 1998, up 1%. In Mexico, the brands reported overall sales of 94,800 vehicles, up 34% from 70,900 in 1997.

Chrysler, Jeep and Dodge brand sales (shipments) outside North America were 188,200, down 21% from 1997, which had been a record year internationally for these brands. Chrysler minivans were the brands' biggest seller outside of North America, accounting for 34% of international sales. The Jeep Cherokee accounted for 18% of sales outside North America; the Jeep Grand Cherokee also for 18% of international sales.

CHRYSLER BRAND SUCCESSFUL WITH NEW MODELS. Positioned as a near-luxury marque, the Chrysler brand continues to build upon its reputation in the industry. In 1998, Chrysler launched the LHS and all-new 300M both to critical acclaim. The 300M, designed for sale in North America and export to international markets, was named Motor Trend magazine's "Car of the Year", and has also been well received by the European media and customers.

At the North American International Auto Show in Detroit in January 1999, the brand introduced the 2001 Chrysler PT Cruiser. Described as a flexible-activity vehicle, the new design blends characteristics of cars, trucks, minivans and sport-utility vehicles to create an all-new car segment in America. The prefix "PT", meaning "personal transportation", reflects the vehicle's versatility for each individual owner.
Left- and right-hand-drive versions will be produced at DaimlerChrysler's assembly plant in Toluca, Mexico, with sales starting in early 2000.

PLYMOUTH REPRESENTS FUN, VALUE. The Plymouth brand, which celebrated its 70th anniversary in 1998, continues to serve as an affordable entry-level brand for customers. The 2000 Plymouth Neon compact car was unveiled in December 1998 in Los Angeles. The new Neon, which went on sale in the first quarter of 1999, combines a high degree of functionality with a fun driving experience. The Plymouth Prowler remains an image-enhancing car for the brand. This unique roadster is available in red, black, bright yellow, as well as in the original purple.

JEEP VEHICLES' POPULARITY CONTINUES TO GROW. The all-new Jeep Grand Cherokee was among the DaimlerChrysler vehicles introduced to great reviews in1998. The 1999 Grand Cherokee received the "4x4 of the Year" award from Petersen's "4-Wheel & Off-Road magazine" and "Four Wheeler of the Year" from "Four Wheeler magazine". It also was named the 1999 North American Truck of the Year at the North American International Auto Show in Detroit.

The Jeep brand is on the forefront of customer relationship marketing. After "inventing" customer loyalty programs with the original Rubicon Trail Jeep Jamboree 45 years ago, the Jeep brand created Camp Jeep in 1995, a three-day action-packed family event exclusively designed for Jeep owners and their active lifestyles. The 1999 Camp Jeep will be held in Virginia at Walton's Mountain near the Wintergreen Resort.

Internationally, the 1998 Jeep Grand Cherokee was named the "Best Sport-Utility in Brazil." The Grand Cherokee was also named the best luxury and compact sport-utility vehicle by "Geländewagen Magazin" in Germany, and the "Best New Sport-Utility" by the Automobile Journalists of Canada.

DODGE VEHICLES EMPHASIZE POWER, SPORTINESS. The Dodge brand remains the performance division of the company. In 1998, it posted US sales of 1,454,700, up 15% compared with 1997. Dodge Truck's U.S. sales of 1,099,900 were up 21% compared with 1997.

New R/T production and concept vehicles were unveiled at Detroit's North American International Auto Show. The 2000 Dodge Neon debuted in dealerships in the first quarter of 1999 with an all-new exterior and interior, along with substantially improved on-road performance and handling. The Dodge Dakota Quad Cab became available for retail sale in the fourth quarter of 1998. The industry's biggest and most powerful compact pickup is now the most versatile, with four doors. Wide-opening rear doors (with full roll-down windows) offer unrestricted passenger ingress and egress, and make loading and unloading large packages easier. Dodge Dakota Quad Cab features the most interior room in its class.

MINIVANS RETAIN POPULARITY. Chrysler, Plymouth and Dodge minivans are among the most successful products of DaimlerChrysler. In 1998, the company celebrated 15 years of minivan production with ceremonies at the Windsor (Ontario, Canada) and St. Louis (Missouri) South assembly plants. More than 7 million DaimlerChrysler minivans have been produced since the vehicle's 1983 introduction for the 1984 model year.

In the United States the company posted a 1% sales increase for 1998 models, with sales totaling 518,900 units. Record minivan sales were reported in Canada.

Dodge Caravan ES: a family car offering an extra dimension – a spacious interior and variable seating combined with pure driving pleasure.

At the 1998 Chicago Auto Show, Chrysler showcased a new dimension in luxury minivans-the 1999 Chrysler Town & Country Limited. Production of this more distinctive and upscale version of the Town & Country luxury minivan started in March 1998.

In the United States, the minivans received the Consumers' Digest "Best Buy Award." Canada's Carguide Magazine named the Dodge Caravan a 1999 "best buy" in the minivan category for the third consecutive year.

CONCEPT VEHICLES HIGHLIGHT FUTURE TECHNOLOGIES AND DESIGN. The Chrysler Pronto Cruizer concept car was unveiled at the Geneva Motor Show in March 1998. It was the first time a Chrysler-brand concept was introduced at a European motor show since the Portofino – the brand's first iteration of its cab-forward design. The Pronto Cruizer's exterior and interior design themes were inspired by the 1940s American art-deco design. The Pronto Cruizer took that classic appeal and refined it with a cutting-edge styling, efficient packaging, precision craftsmanship and a heavy dose of American fun and freedom.

In addition, four concept vehicles were unveiled at Detroit's 1999 North Amercan International Auto Show.

The Jeep Commander concept is an upscale sport-utility vehicle that uses environment-friendly fuel-cell technology. The Commander may well be the world's only four-wheel-drive vehicle that runs on electric power.

The Chrysler Citadel blends characteristics of a luxury sport sedan and the power and security of a sport-utility vehicle together with a futuristic design. While the Citadel is not only a hybrid among market segments, it is also a hybrid of power trains, as it draws power from two different sources. A gas engine propels the rear wheels, and electricity drives the front wheels.

The Dodge Charger R/T pays homage to the muscle-car era. Its low emissions even meet the California Air Resources Board Ultra Low Emission Vehicle standard. That's because it's powered by a supercharged, compressed natural gas (CNG) 4.7-liter V-8 engine.

The Dodge Power Wagon truck concept is a refined and tailored interpretation of the original, rugged 1946 workhorse. The Power Wagon is powered by a 7.2-liter, direct-injection I-6 turbocharged diesel engine.

BRANDS RECEIVE QUALITY HONORS. Four Chrysler and Dodge vehicles topped the 1998 Total Quality Index ratings by Strategic Vision, a California-based research firm. The Dodge Ram, Chrysler Town & Country, Dodge Durango and Chrysler Sebring won in their respective categories.

In June, J.D. Power and Associates named the Chrysler Concorde and Cirrus as having the best quality in their categories in the Initial Quality Rankings for 1998. The Dodge Caravan finished second in the compact van category.

REDUCING COST BY SCORE. Efforts to improve vehicle quality and value continue in part through a program that provides suppliers with initiatives to generate new ideas and improve their production processes. In August 1998, the Supplier Cost Reduction Effort (SCORE) surpassed its stretch goal of € 1.7 billion in savings, topping its original goal for the 1998 model year by more than € 400 million.

INVESTMENTS IN PRODUCTION LEAD THE WAY INTO THE NEXT CENTURY. In May, the Bramalea (Ontario) assembly plant had formal launch ceremonies to mark full production of the 1999 Chrysler 300M, LHS and Concorde and Dodge Intrepid.

Also in May, construction began on the new Mack Avenue II Engine Plant in Detroit, Michigan. The 600,000-square-foot facility represents another € 640 million investment by the company in the city. The plant will build a new 3.7-liter V-6 engine for the next-generation Jeep Cherokee and the entire Dodge truck line. The plant is expected to open by 2001 and produce up to 300,000 engines annually.

The Plymouth Neon Style – a compact sedan sporting amazing features. An "American way of drive" in styling, performance and safety as well as comfort and aerodynamic design.

Sales 1998

		Units ('000)	98:97 (in %)
Total		3,094	+ 7
Of which:	Passenger Cars	939	+ 9
	Trucks	719	+ 8
	Minivans	685	0
	SUV	750	+ 13
	United States	2,548	+ 10
	Canada	261	- 2
	Mexico	94	+ 34
	Rest of the World	188	- 21

In June, the company started production of the Jeep Cherokee at the Cordoba (Argentina) assembly plant. The vehicles will be sold in the Mercosur markets of Argentina, Brazil, Paraguay and Uruguay.

Opening ceremonies were held in July for the Campo Largo (Brazil) assembly plant, which will build gas- and diesel-powered Dodge Dakota pickups in standard and club cab versions. A new transmission plant in Kokomo, Indiana, began production in July of new transmissions for the redesigned 1999 Jeep Grand Cherokee.

July also saw the groundbreaking ceremony for the new 1.1-million-square-foot Toledo (Ohio) assembly plant. This facility represents a € 500 million investment by the company in the north side of the city. Production of Jeep sport-utility vehicles will start at the end of 2000.

MOTORSPORTS VICTORIES CAP STRONG YEAR FOR VIPER RACING. In auto racing, the Dodge Viper finished first and second in the GT-2 class at the 24 Hours of LeMans endurance race in France. It was the first time a company has won this race with a production vehicle designed and manufactured in the United States. Also, Viper Team ORECA won the Federation Internationale de l'Automobile (FIA) GT-2 Constructors' Championship and the FIA GT-2 Drivers' Championship for the second consecutive year.

Chrysler Financial Services

Chrysler Financial Services (CFS) achieved a record operating profit of € 652 million for 1998, up from € 586 million in 1997. Earnings benefited during 1998 from lower credit losses and growth in the company's managed portfolio of receivables and leases. Revenues increased to € 2,9 billion compared to € 2,4 billion in 1997. In addition to setting a new record for earnings in 1998, CFS acquired a record € 74.2 billion in loans and leases and managed a record € 42.5 billion portfolio of receivables and leases at year-end.

PROVIDING A WIDE RANGE OF AUTOMOTIVE SERVICES. Chrysler Financial Services (CFS) provides retail and lease financing for vehicles, dealer inventory and other financing needs, dealer property and casualty insurance, and dealership facility development and management, primarily for DaimlerChrysler dealers and their customers. Headquartered in Southfield, Michigan, CFS is one of the largest automotive financial services companies in North America. CFS also expanded during the last two years into international markets, opening offices in Belgium, France, Italy, Japan, Venezuela, Taiwan, Puerto Rico, Austria, Germany and the Netherlands.

GROWTH IN AUTOMOTIVE FINANCING VOLUME. CFS's automotive volume increased to € 80.1 billion in 1998 compared to € 73.7 billion in 1997. The increase in automotive volume reflects higher retail and lease penetration due to the impact of marketing programs to customers and dealers initiated during 1997. Nearly 2.5 million new Chrysler, Plymouth, Jeep and Dodge vehicles have been financed by CFS in the United States in 1998, 250,000 vehicles more than in 1997.

Chrysler Credit Canada Ltd., which provides automotive financial products and services to Canadian automotive dealers and customers, financed 310,000 new vehicles in 1998 compared to 277,000 vehicles in 1997.

OHTER BUSINESSES ALSO SUCCESSFUL. Chrysler Insurance Company (CIC), a subsidiary, had a very favorable business development. Premium volume rose to € 200 million in 1998. Chrysler Insurance was named to Ward's 50 Benchmark Group for the eighth consecutive year. This award recognized CIC as one of the top performing property and casualty companies in the industry.

Chrysler Capital Company L.L.C. worked closely with DaimlerChrysler on tax-related investments, managing approximately € 2.5 billion in leveraged leases and other commercial loans and leases.

Chrysler Realty Corporation (CRC) engages in the ownership, development and management of DaimlerChrysler automotive dealership properties in the United States. CRC purchases or leases dealership facilities and then leases or subleases these facilities to dealers. At the end of 1998, CRC controlled 723 sites, of which 189 were owned.

FINANCIAL SERVICES COMBINED WITHIN DAIMLERCHRYSLER SERVICES. CFS will be combined with debis in 1999. The combined financial services unit of DaimlerChrysler Services will have a portfolio of € 70 billion. It will be the fourth-largest provider of financial services in the world outside the banking and insurance sector and will compete directly with the some of the strongest competitors in the financial services market. The new DaimlerChrysler Financial Services North America L.L.C. (DCFSNA) will continue to serve dealers and customers in the United States, Canada and Mexico and will be headquartered in Southfield, Michigan. Chrysler Capital's operations are being combined with the existing capital services operations of debis Financial Services to form a new international business unit, which will focus on global Capital Services. It will tap the enormous potential of the non-automotive financial services business, with worldwide headquarters based in Norwalk, Connecticut.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	765	652	586
Revenues	3,376	2,877	2,407
Employees (12/31)		3,513	3,405

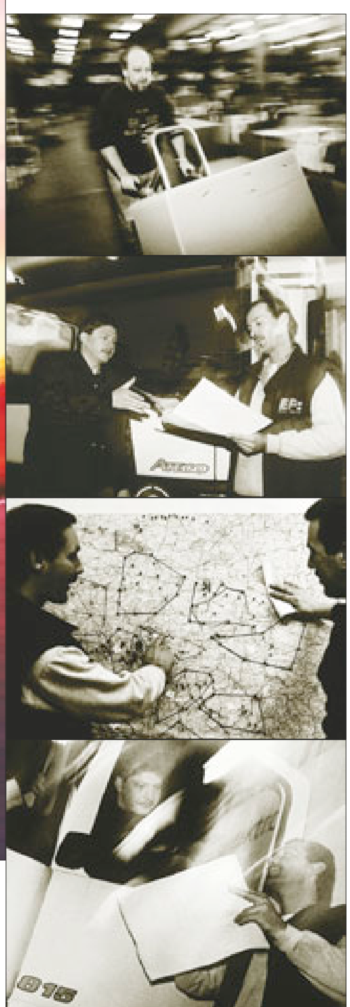
MERCEDES-BENZ, FREIGHTLINER, STERLING, SETRA

Commercial Vehicles

The new Atego Series for delivery duty and light long-haul and building site traffic. First shown in 1998, the Atego was voted "truck of the year '98".

The Commercial Vehicles Division continued its profitable growth in 1998. Revenues, sales and production reached all-time highs. Operating profit rose to € 0.9 billion (1997: € 342 million). Business developed especially well in North America where Sterling, a new truck brand, got off to an excellent start. The truck and van business also grew significantly in Western Europe, and in Latin America, the Sprinter van was particularly successful. Despite a difficult market in Asia, we continue to target strategically important markets in the region.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	1,110	946	342
Revenues	27,175	23,162	20,012
Trucks Europe	7,169	6,110	5,572
Commercial Vehicles North America	8,309	7,080	4,965
Vans Europe	5,823	4,963	4,435
Powertrains	3,792	3,232	2,946
Buses Europe	2,390	2,037	1,931
Commercial Vehicles Latin America	2,459	2,096	2,242
Unimog	329	280	320
Investments in plant, property and equipment	976	832	601
R & D	837	714	602
Production (Units)		492,643	422,438
Sales (Units)		489,680	417,384
Employees (12/31)		89,711	85,071



FAVORABLE MARKET DEVELOPMENT IN WESTERN EUROPE AND NORTH AMERICA. The commercial vehicle markets in Western Europe and North America developed very favorably in 1998, while demand in the Asian markets remained significantly lower than in the previous year as a result of their economic and financial crisis. In various South American countries as well, and particularly in Brazil, the growing economic uncertainty led to a definite decline in commercial vehicle demand, especially in the second half of the year.

In Western Europe, there was market growth in nearly every region and in all market segments. The revival in demand was especially pronounced for trucks in the category over 6 tons, notably for heavy-duty trucks over 16 tons. Sales in the United States were up 11% to 345,900 vehicles in Classes 6 to 8 (over 8.8 tons), a particularly important market segment for Freightliner and Sterling.

COMMERCIAL VEHICLE DIVISION ON GROWTH COURSE. The Commercial Vehicle Division continued its growth course in 1998. Revenues rose by 16% to a new record high of € 23.2 billion. Vigorous growth was achieved in the United States (up 48% to € 6 billion) and in Western Europe outside of Germany (up 15% to € 5.4 billion). In Germany, the previous year's level was surpassed at € 6.4 billion (up 12%), while in South America revenues dropped to € 2.1 billion (-2%). With worldwide sales of 489,700 (1997: 417,400) units, Mercedes-Benz, Freightliner, Sterling and Setra commercial vehicle sales set a new record as well. The Commercial Vehicles North America, Vans Europe, and Trucks Europe units performed particularly well.

EARNINGS SIGNIFICANTLY IMPROVED. The positive trend in earnings achieved in1997 was strengthened considerably in 1998. Operating profit from commercial vehicles rose from € 342 million in 1997 to € 946 million. The new, more cost-effectively manufactured products, continued process optimization in production and constructive relations with the suppliers were particularly important factors.

MERCEDES-BENZ VANS LEAD MARKET IN WESTERN EUROPE. With the successful Vito (2.6 tons), Sprinter (2.5 to 4.6 tons) and Vario (4.8 to 7.5 tons) van models and the V-Class minivan, the Vans Europe unit again grew more strongly than the market in 1998. It was able to reinforce the leading position it achieved for the first time in the previous year in the segment from 2 to 6 tons in Western Europe. Market share in this segment

First market appearance of the Powertrain unit at the IAA commercial vehicle show in Hannover.

rose to 18.7% (1997: 18.3%). In Germany, market share was also higher at 27.1% (1997: 26.4%). Total sales for the business unit increased to 199,500 vehicles exceeding the previous year record by a further 10%. Germany remains the most important market for the Vans Europe business unit at 66,100 vehicles (up 8%). A total of 123,800 vehicles were sold in Europe outside of Germany (up 7%), and 8,600 vehicles were sold overseas (up 66%).

The "1998 Commercial Vehicle of the Year" awards illustrate the outstanding customer acceptance of Mercedes-Benz vans: The Sprinter and Vito won first place and the Vario third place in the light trucks category of under 7.5 tons.

SUBSTANTIAL GROWTH IN REVENUES FOR TRUCKS EUROPE. The Mercedes-Benz truck product program includes vehicles tailored to market demands for nearly every application and they all offer the highest possible customer benefit. It also includes special vehicles such as the Econic, manufactured in Arbon, Switzerland, that was launched in 1998. The success factors of the truck product range are high efficiency, customer-friendly maintenance intervals, an environmentally compatible product concept, ergonomically designed interior space and highest safety standards. In 1998, the product drive was continued in Europe with the new Atego delivery truck. This series is produced in Wörth, Germany, and has impressed drivers and fleet operators.

The Atego was awarded the distinction of "Truck of the Year 1999" by the international automotive press after the heavy-duty Actros truck took the title in 1997. The business unit's sales rose 13% to a total of 87,300 vehicles. In the sector for trucks over 6 tons, we reinforced our market leadership in Western Europe and achieved a market share of 23%. The Trucks Europe production network, which includes the facilities in Wörth, Germany, Aksaray, Turkey, Arbon, Switzerland, and Molsheim, France, assembled a total of 88,700 trucks in 1998 (1997: 78,800 units).

In 1998, the Unimog business was focused even more strongly on the tool carriers segment and was integrated into the Trucks Europe Unit. A total of approximately 2,900 Unimogs were sold in 1998.

POWERTRAIN UNIT AS A COMPETITIVE SYSTEM SUPPLIER. As a competitive component manufacturer with special system expertise, the Powertrain unit produces and markets engines, transmission units, axles, and steering systems. The unit's most important customers are the assembly plants for Mercedes-Benz commercial vehicles in Western Europe. Since 1998, it has also been producing engines for Freightliner Corporation in North America. The unit delivered products worth € 2.9 billion to customers inside DaimlerChrysler. Revenues from external customers amounted to approximately of € 0.3 billion. As a result of the business unit's independent presence at the International Commercial Vehicle Show in Hannover, more customers from outside of DaimlerChrysler have been reached. In the current fiscal year, the business unit plans to continue to expand its sales organization and after-sales activities. In addition, more attention will be focused on improving its competitive position and taking advantage of the opportunities offered by the global production network.

EVOBUS CONTINUES TO EXPAND LEADING MARKET POSITION. The Buses Europe unit, whose corporate name is EvoBus GmbH, increased its sales in 1998 by 4% to a total of nearly 8,300 Mercedes-Benz and Setra units (5,700 complete buses and bus chassis and 2,600 vehicles respectively). The unit also strengthened its leading market position in Western Europe (including Turkey) with 20% for Mercedes-Benz (1997: 18%) and 9% for Setra (1997: 9%). Among the most important product launches at Mercedes-Benz in 1998 were the CITARO, which was awarded the title of "Commercial Vehicle of the Year," in the city bus category, the 15-meter version of the INTEGRO as well as the innovative CITO midibus. In addition, the 15-meter Setra 319 GT-HD tour bus was introduced to the market in 1998.

STRONGEST GROWTH IN NORTH AMERICA. Freightliner Corporation continued its growth course in 1998 and participated at an above-average rate in the positive market development in North

America. The new Sterling brand, introduced to the market after the acquisition of the heavy-duty trucks segment from Ford Motor Co. in the spring of 1998, contributed substantially to Freightliner's growth. The new heavy Freightliner Argosy cabover truck was also received extremely well in the market. Freightliner sold a total of 128,000 commercial vehicles in 1998 (1997: 89,400 units) and reinforced its position as the leading manufacturer of heavy-duty trucks in North America. Among Class 8 trucks (over 15 tons), the combined market share of Freightliner and Sterling in the United States reached 31.3% (1997: 28.2%). Business was especially favorable for medium-duty trucks in Classes 6 to 7 (8.8 to 15 tons). In this segment, sales in the United States soared by 84% to a total of 25,600 vehicles, and the market share reached 18.2% (1997: 11.7%).

The purchase of Thomas Built Buses Corporation was an important milestone in DaimlerChrysler's strategy to become a leading manufacturer in the medium-duty commercial vehicle segment in North America and to further strengthen its position in the bus business. Thomas Built Buses, headquartered in North Carolina, holds a 33% market share and is one of the leading manufacturers of school bus assemblies in North America.

Mercedes-Benz Mexico S.A. increased production to 9,800 commercial vehicles in 1998 (1997: 6,400 units), most of which were exported to the United States and Canada.

SPRINTER REMAINS SALES LEADER IN LATIN AMERICA. We continued to optimize the structure of the Commercial Vehicles Latin America unit in 1998. The production company in Brazil now concentrates on assembling truck and bus chassis, while van production for South America is consolidated in Argentina.

Despite a difficult economic environment, the business unit was able to increase sales by 1% after the high level of the previous year to more than 57,000 commercial vehicles. Here the market success of the Sprinter van series produced by Mercedes-Benz Argentina was decisive, and nearly, 15,000 units were sold.

Sales 1998

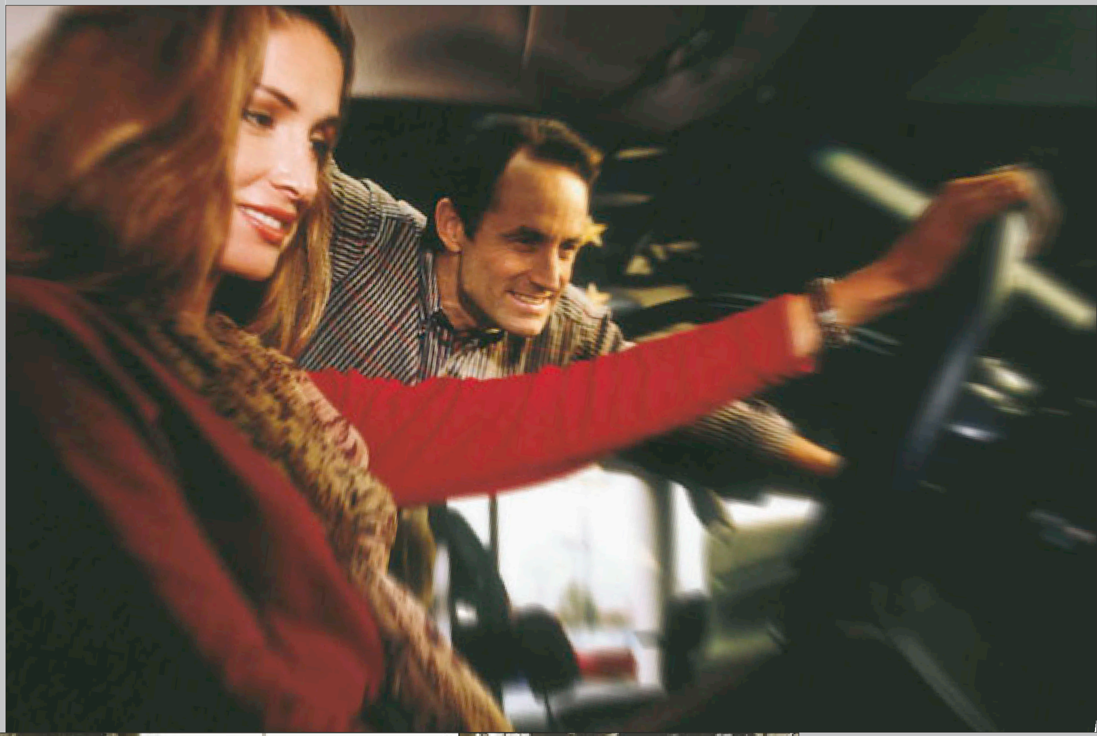
	Units ('000)	98:97 (in %)
World	490	+17
of which Vans (incl. V-Class)	217	+12
Pick-ups	4	+.
Trucks	234	+23
Buses	33	+6
Unimog	3	–7
Europe	277	+8
of which Germany	107	+11
Western Europe (excl. Germany)	148	+12
North America	126	+46
of which U.S.A.	108	+49
Latin America (excl. Mexico)	58	+5
of which Brazil	39	+5
Asia	12	+11

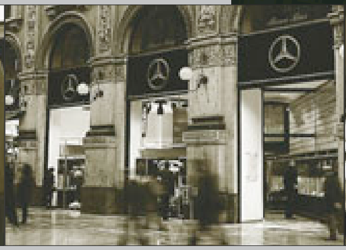
We also maintained our leading position in Brazil in the segment of trucks over 6 tons and buses with market shares of approximately 36% and 64% respectively. In Argentina, the market share for trucks over 6 tons rose to 37% and 15% for vans.

IMPORTANT PROJECTS IN ASIA. The People's Republic of China is a market with tremendous growth potential for the bus business in particular. A key project for DaimlerChrysler is the Yaxing-Benz joint venture, which was founded in March 1997 with Jiangsu-Yaxing Motor Coach Group in Yangzhou. It produces buses and chassis under the Yaxing and Mercedes-Benz brands. The components for the bus chassis are supplied by Mercedes-Benz do Brasil among others. Furthermore, a partnership to jointly develop and produce a new light-duty truck was agreed with Nissan Diesel in 1998.

Freightliner and Sterling, our truck brands in North America, have now been joined by another strong partner: the Thomas Built Buses Corporation, one of the leading manufacturers of school bus assemblies.

First class, reliable service and qualified friendly customer care: another area in which we aim to be world leaders.





Vehicle Sales Organization

Following the merger of Daimler-Benz and Chrysler we created a new worldwide sales structure as one of the first results of the integration process. This new organization lays the groundwork for achieving our growth goals for the vehicles businesses and realizing the synergy gains resulting from the merger. New opportunities and standards have been defined for the brand portfolio of the new company in order to enhance the value of each individual brand. Also for this purpose, distinct areas of brand responsibility have been allocated within the Board of Management of DaimlerChrysler. Our overall goal is to be the best in the world, not only with our products, but also in all aspects of customer service.

PROTECTION OF BRAND NAMES IS THE MOST IMPORTANT REQUIREMENT. To protect our investment in the company's six passenger car brands, we have identified the opportunities and limits for each individual brand. The next step was to define the respective positions in the market for the entire brand portfolio and the product strategy, communication, and sales modalities.

This uniform worldwide brand management clearly separates the brands from one another and defines the tasks within the brand portfolio. From today's perspective, each brand has considerable prospects for growth within the framework of the standards and market segments defined for it. Thus, the operational units are provided with the basis for their strategic decisions in conformance with the agreed standards. The major brand positioning elements are defined in a so-called "Brand Bible" to which all areas of the company are committed.

WORLDWIDE BRAND RESPONSIBILITY. With the goal of further harmonizing the development of the different brands around the world, we have restructured the organization of the six passenger vehicle brands, as well as the four commercial vehicle brands. Three different areas of worldwide responsibility have been created. For the Chrysler, Plymouth, Dodge and Jeep lines, Jim Holden will assume worldwide responsibility; for the passenger car lines Mercedes-Benz and smart, Dieter Zetsche will be responsible; and for commercial vehicle lines Mercedes-Benz, Freightliner, Sterling and Setra, Kurt Lauk will assume responsibility. Ted Cunningham is responsible for the worldwide standardization of common systems and processes in marketing and sales. This structure allows for regional distinctions and requirements for product development in order to fully capitalize market potential with products suitable to the market and the customer, and to promote future growth.

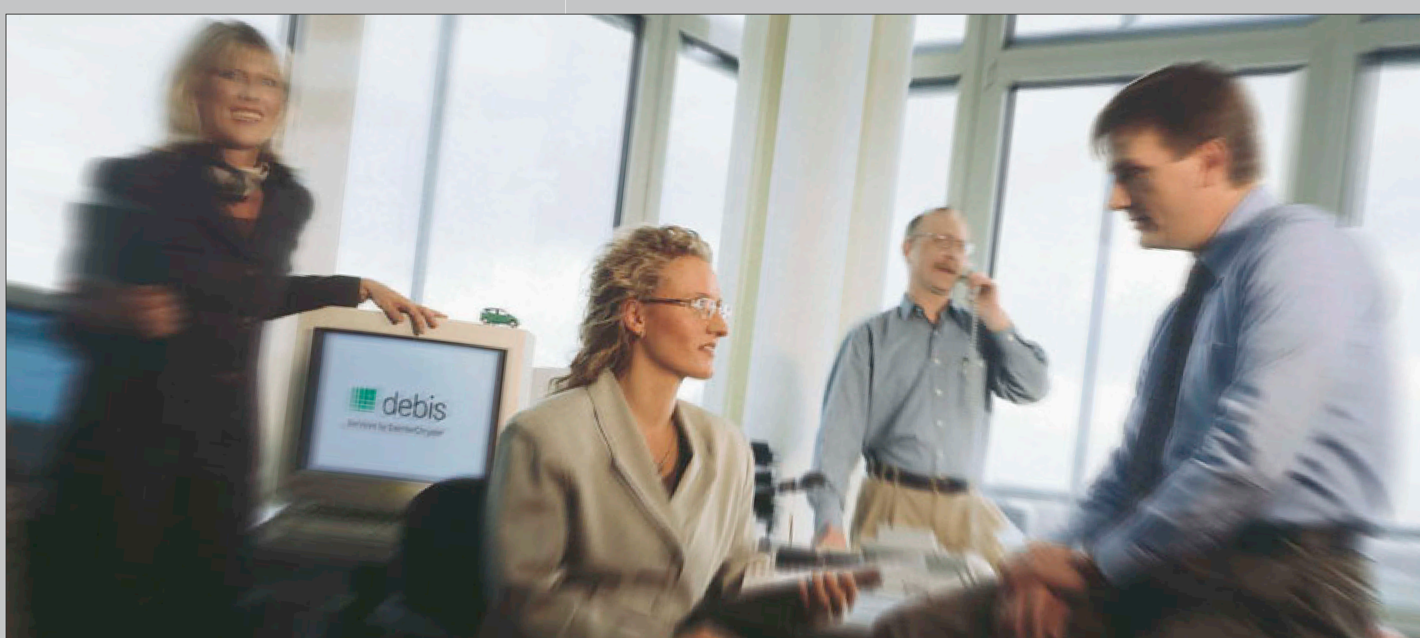
NEW REGIONAL RESPONSIBILITY. To quickly implement growth possibilities and operational synergies, we also have created three areas of regional market responsibility. Market development and control of the sales companies has been divided into three regions: North America, South America and Europe/rest of the world. As a rule, the previously separate wholesale stages will be integrated in this new organization. Within each country, responsibility for all brands will then be taken by one national company.

The main responsibility lies with each country chairman (CEO). To achieve appropriate savings, central functions such as finance, controlling, parts logistics and administration will be combined. In addition, special brand managers in each of the countries and regions will be responsible for the individual makes and will orient them toward their respective market segments and target groups.

MARKETING INTEGRATION COUNCIL. At the top of the new organizational matrix of worldwide brand responsibility and regional sales responsibility is a "Marketing Integration Council". This council steers the new marketing and sales structure and consists of Ted Cunningham, Jim Holden, Kurt Lauk and Dieter Zetsche. Among other responsibilities this group will determine production goals and define the central services to be established, as well as take decisions on profit goals in coordination with the business units.

Services

debis, the services company of DaimlerChrysler, recorded business developments well above average in all areas in 1998. Operating profit and sales reached new heights, and a record number of new jobs were created. By merging the activities of Chrysler Financial Company L.L.C. and debis at the beginning of 1999, we have paved the way for a further expansion of our financial services activities.



Economic solutions and qualified on-site customer service are guiding principles for us. For example in car fleet management, tailored to your requirements to ensure maximum time and cost savings.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	460	392	246
Revenues	11,232	9,573	7,924
Financial Services	6,866	5,852	5,102
IT Sevices	2,633	2,244	1,613
Telecom Services	1,762	1,502	1,182
Investment in Property, Plant and Equipment	334	285	193
Employees (12/31)		20,221	14,898

DYNAMIC GROWTH CONTINUES. In 1998, the dynamic growth of DaimlerChrysler Services AG continued for the ninth consecutive year. All business units – Financial Services, IT Services and Telecom Services - showed remarkable development and increased the volume of their business. Revenues increased by 21% to € 9.6 billion. For the first time, more than half of the division's turnover, € 5.0 billion, came from outside Germany. In addition, we commenced business operations in a further 10 countries.

OPERATING PROFIT INCREASED BY 59%. Once again, we were able to show an improved result. Operating profit, the figure which indicates the success of the division's operations, was, at € 392 million, 59% higher than for 1997. All business units contributed to this success by significantly improving their results.

IMPROVED PROSPECTS FOR GROWTH THROUGH DAIMLERCHRYSLER. The merger of Chrysler Corporation with Daimler-Benz AG has also opened up excellent new prospects for growth in the services sector. As a result of merging the activities of Chrysler Financial Company L.L.C. with those of debis at the beginning of 1999, the Services Division is in a position to expand its strategically important position within DaimlerChrysler still further. With a portfolio of more than € 70 billion, DaimlerChrysler Services AG has grown into the fourth-largest financial services company in the world outside of the banking and insurance sector. Through the merger, it has an extremely good market position, and can continue to grow with the support of the financial strength of DaimlerChrysler. We have integrated the former division of Trade Finance into the division of Financial Services as debis Trade Finance. Since January 1, 1999, now that the Potsdamer Platz project is largely complete, real estate management operations have been the direct responsibility of the financial unit of DaimlerChrysler AG. In 1998 real estate management achieved a business volume of € 82 million (1997: € 112 million). These revenues are included in the sales of DaimlerChrysler Services.

MORE THAN 5,000 NEW JOBS. At the end of 1998, the Services Division employed 5,323 more staff than in 1997, the number of employees increasing to 20,221. Our German companies employed 13,519 persons (+25%), while an additional 6,702 (+66%) were employed in other countries. This, too, reflects the increasing internationalization of our activities. The number of people employed by debis has increased by 8,700 over the last two years.

FINANCIAL SERVICES: STRONG GROWTH CONTINUED IN 1998. The Financial Services unit, with 95 operating companies in 29 countries, increased revenues by 15% to € 5.9 billion. At the same time, new business expanded by 24% to € 15.5 billion. Contract levels also reached a new high, with € 27.5 billion. Along with the gratifying trend in North America and Western Europe, where we were able to expand our portfolio by 15% and 27%, respectively, debis also succeeded in increasing contracts in Asia by 23% to € 1.5 billion, despite the economic and financial crisis. In the field of insurance (debis Insurance Brokerage) we were able to increase premium volume by 7% to € 0.6 billion. The Trade Finance division raised its countertrade volume by 18% to € 341 million.

IT SERVICES: BUSINESS OUTSIDE GERMANY GAINING IN IMPORTANCE. The IT Services division continued the positive trend 1997 and increased its revenues by 39% to a current level of more than € 2.2 billion, with 69% of that business with customers outside of DaimlerChrysler. Revenues abroad showed above-average growth, increasing by 97% to € 0.6 billion.

IT Services offers a complete range of IT services, from consulting (Plan) through the development of software solutions (Build) to the operation of application systems, mainframe centers, networks and desktop services (Run). Along with the general expansion of business, we have established a number of new companies abroad, including Brazil, Japan, Singapore, the Philippines, Russia, Hungary, the Czech Republic and Poland.

TELECOM SERVICES: SUCCESSFUL START ON THE FIXED NETWORK. debis Telecom Services achieved revenues of € 1.5 billion (1997: € 1.2 billion) with its activities in telecommunications, traffic telematics, traffic consulting and planning, and online services. With its successful move into the fixed telephone network, debitel has now become one of the most important suppliers offering a complete range of services in the telecommunications market. We also have 3 million (1997: 1.7 million) mobile telecommunication customers throughout Europe. In Germany, debitel has around 1.8 million cellular phone subscribers, and thereby remains first among the mobile service providers. We have also expanded our business volume significantly in the fields of traffic telematics and electronic commerce.

To give debitel also direct access to the international money markets, the two major shareholders, debis and Metro decided to convert debitel into a joint-stock company. In March 1999, at least 20% of the share capital will be placed with private and institutional investors in Germany and abroad.

The final assembly of the A321 passenger aircraft from the versatile Airbus family in Hamburg.

Aerospace

With an operating profit of € 623 million, 1998 was the most successful year for DaimlerChrysler Aerospace since its founding in 1989. The Aerospace Division increased its revenues by 12% in 1998 to € 8.8 billion (1997: € 7.8 billion). Incoming orders reached an all-time high as well at € 13.9 billion (1997: € 9.9 billion). Almost all business units contributed to this favorable development. The integration of SI Sicherungstechnik was an important milestone in the realignment of the Defense and Civil Systems business unit.

FAVORABLE CONDITIONS OVERALL. The economic situation was favorable for the Aerospace Division in 1998. Demand for civil aircraft and aeroengines remained strong. Positive factors included production clearance for the Eurofighter. On the other hand, the very limited public budgets in Western Europe had a negative effect. The dollar exchange rate, which on an annual average barely changed in comparison to 1997, created stable conditions for currency exchange.

Regardless of the favorable market situation in the commercial sector, competition continued to intensify in this industry. There is still a great need to reduce costs and combine forces to remain competitive on an international level.

Dasa, the British GEC, the French Lagardère, and the Italian Finmeccanica have agreed to merge their aerospace activities as part of the process of Europeanization of the aerospace industry. The new aerospace company, provisionally named Newco, is due to be founded in June 1999, provided permission is granted by the regulating bodies of the European Union. In addition, we are continuing to pursue the goal of establishing a European Airbus corporation.

BEST EARNINGS EVER. The favorable development of earnings demonstrates that we have strengthened the earning power of this division in the course of the past few years. The division's operating profit rose by € 339 million to € 623 million, making 1998 the most successful year since Dasa's founding. Significant factors in this development included the success of the restructuring and optimization programs we introduced several years ago. We are now able to significantly improve our position in an extremely competitive market.

REVENUES AND INCOMING ORDERS HIGHER THAN EVER. The Aerospace Division increased its revenues by 12% as compared to 1997 and set a new record at € 8.8 billion. Except for the Satellites unit, which for accounting reasons remained just under the previous year's level at € 0.6 billion (1997: € 0.7 billion), all of the business units contributed to this success. The growth in revenues was especially pronounced in the Commercial Aircraft unit at € 3.0 billion (1997: € 2.4 billion), in Defense and Civil Systems at € 1.7 billion (1997: € 1.5 billion), in Aeroengines at € 1.7 billion (1997: € 1.5 billion) and the helicopter business at € 0.7 billion (1997: € 0.6 billion). While the higher delivery volume in the Airbus program had a significant effect in the Commercial Aircraft unit, the growth in the Defense and Civil Systems unit predominantly resulted from the integration of SI Sicherungstechnik, accomplished in 1998, which was acquired from Siemens.

Incoming orders reached € 13.9 billion in 1998 and were 40% higher than in 1997. The largest share in incoming orders was once again contributed by the Commercial Aircraft unit at € 5.2 billion (1997: € 4.6 billion). At € 2.7 billion (1997: € 1.0 billion), the largest growth was achieved in the Military Aircraft unit due to production clearance for the Eurofighter.

Amounts in Millions	98 US $	98 €	97 €
Operating Profit	731	623	284
Revenues	10,290	8,770	7,816
Commercial Aircraft	3,475	2,962	2,433
Helicopters	798	680	620
Military Aircraft	1,123	957	846
Space Infrastructure	683	582	565
Satellites	757	645	741
Defense and Civil Systems	2,029	1,729	1,453
Aeroengines	1,948	1,660	1,515
Investment in property, plant and equipment	382	326	255
R&D	2,402	2,047	2,233
Employees (12/31)		45,858	43,521

The Aeroengines (€ 2.6 billion; 1997: € 1.4 billion), Defense and Civil Systems (€ 2.1 billion; 1997: € 1.6 billion), Space Systems Infrastructure (€ 0.5 billion; 1997: € 0.4 billion), and Satellites (€ 0.6 billion; 1997: € 0.6 billion) units were able to increase their incoming orders. At € 744 (1997: € 818) million, orders in the helicopter business did not quite reach the 1997 level, which had been exceptionally high due to two large contracts.

WORK FORCE AND CAPACITIES CAREFULLY EXPANDED. The high volume of orders on hand has allowed us to carefully expand the work force in almost all business units. At the end of 1998, we employed a total of 45,858 persons in the Aerospace Division (1997: 43,521 persons). We gained 1,142 new employees as a result of the integration of SI Sicherungstechnik.

The award of the Eurofighter contract by the nations involved made a large number of jobs more secure for the future, above all in the Military Aircraft and Aeroengine units.

In the Commercial Aircraft unit, the volume of orders on hand increased to 1,300 aircraft by the end of 1998 (1997: 1,009 units). This and the expectation of increased earnings in the future once again led the Airbus consortium to increase production rates in the A319/A320/A321 program from 16 aircraft per month in 1997 to 22 aircraft per month by mid-2000.

Rail Systems
Automotive Electronics
MTU/Diesel Engines

RAIL SYSTEMS. The rail systems business unit, which was still being conducted by the Adtranz joint venture in 1998, increased its sales by 2% to € 3.3 billion. Incoming orders also increased to € 4.2 billion (1997: € 3.8 billion). This increase resulted mainly from large contracts such as the order for 400 locomotives for the Deutsche Bahn AG, a complete city rail system for the Portuguese city of Porto, diesel and electric inter-city trains for England, streetcar lines for the French city of Nantes, and various contracts for "People Movers."

Adtranz recorded a significant loss in 1998 because in previous years it had taken on contracts at prices that did not cover costs and suffered from technical problems. We have introduced comprehensive structural changes to increase earning power in a sustained way. These changes especially affect the plants in Germany and Scandinavia. Adtranz proposed its new platform concept in 1998, which in the future is intended to cover all product areas from People Movers, streetcars, underground trains, regional and inter-city trains all the way up to locomotives.

Adtranz was able to expand its market presence in Switzerland through the acquisition of the Schweizerische Lokomotiv- und Maschinenfabrik AG and the railroad division of Schindler AG. We also have extended our international presence to Africa with a joint venture for servicing and maintaining rail cars in Uganda. As a result, Adtranz is now active in 60 countries, operating under the aegis of proprietary companies.

In January 1999, we decided to acquire the 50% share in Adtranz held by our joint venture partner ABB. On the one hand this enables us to fulfill a contractual obligation and on the other hand the complete takeover is in accordance with our intention and interest to push ahead more quickly and more purposefully with the restructuring of Adtranz in future.

AUTOMOTIVE ELECTRONICS. After the sale of the semiconductor division, the automotive electronics (TEMIC) business unit was able to increase its volume of business by 35% to € 0.8 billion and its incoming orders by 22% to € 0.8 billion, calculated on a comparable basis, as well as create 790 new jobs. In the meantime, TEMIC is concentrating upon its six product areas – drives and chassis, antiblock brakes, passenger protection systems, sensor systems, high-end electronic equipment and electric motors, which function as autonomous units. Among our customers are the companies of DaimlerChrysler and all major automobile manufacturers.

TEMIC made 45% of its sales in 1998 with products that were not older than two years. We invest about 10% of revenues in research and development annually to ensure that we maintain our capacity to innovate. An additional 9% is applied to investment in plant, property and equipment. In the case of new cars, up to 90% of all technical innovations are today based on electronics. This is the main reason driving an automobile is becoming increasingly simple, safe, and comfortable. TEMIC has thus introduced a series of trend-setting innovations in the new S-Class: both axles are outfitted with pneumatic spring and adaptive shock absorber systems (ADS), which have been integrated as standard equipment in the AIRmatic (Adaptive Intelligent Ridecontrol). Furthermore, the Distronic radar-based electronic distance control system was incorporated into the S-Class for the first time. TEMIC also supplies the control systems for the multiple-position recliner, electronic ignition switches, chassis sensors and radiator fan.

Amounts in Millions	98 US $	98 €	97 €
Rail Systems*)			
Revenues	3,891	3,316	3,261
Incoming Orders	4,906	4,181	3,809
Employees (12/31)		23,785	22,715
Automotive Electronics			
Revenues	885	754	557
Incoming Orders	892	760	622
Employees (12/31)		4,638	3,848
MTU/Diesel Engines			
Revenues	1,081	921	878
Incoming Orders	1,072	914	897
Employees (12/31)		5,893	5,758

*) Of which 50% are included in the financial statements of the DaimlerChrysler Group.

MTU/DIESEL ENGINES. For the MTU/Diesel Engine units 1998 was very succesful. Thanks to sales growth in Europe and North America, we were able to increase revenues by 5% to € 0.9 billion despite the more difficult market conditions in East and Southeast Asia. The overall expansion of business was due to growth in the commercial sectors of the market. The new 2000 and 4000 product lines received an especially warm welcome from our customers. With the new engines, the company is in a position to fulfill the demands of the market for drive systems that are economical, easy to maintain and optimized for efficient fuel consumption. Thanks to improvements made to the MTU ship propulsion assemblies, MTU has maintained a leading position in this segment of the market for several years now. For this reason, MTU has for a long time been offering complete financial arrangements for ships through debis Financial Services. Increases in turnover were also attained in locomotive engines.

We developed standardized units for the new 2000 and 4000 line of products for generating stationary electric power in the "decentralized energy system" segment of the market. These cost-efficient units bear the brand name "Virtus". This enables MTU to offer a range of outputs from 100 to 2000 kW. Furthermore, we concluded a marketing and distribution agreement with the gas turbine manufacturer AlliedSignal to close the performance gap between large diesel engines and the gas turbines of General Electric. Our subsidiary, L'Orange, which is a manufacturer of high-performance injection systems for diesel, heavy fuel and gas engines and the innovative common rail system, continued its steady growth in 1998.

North America

	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	2	711	7,200	1,739
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	41	5,233	52,272	122,602
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	9	711	6,937	17,052
Chrysler Financial Services	–	40	2,827	3,480
Services	–	12	2,780	1,488
Aerospace	2	6	1,510	283
Others	5	34	273	1,773

DaimlerChrysler

WORLDWIDE

South America

	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	1	365	354	1,247
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	2	17	1,329	1,523
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	3	365	2,085	12,720
Chrysler Financial Services	–	2	10	12
Services	–	6	203	697
Aerospace	1	2	77	113
Others	–	32	64	80

Notes:
1. Unconsolidated revenues from the point of view of the individual business
2. Common sales locations for Mercedes-Benz and smart cars and Mercedes-Benz, Freightliner, Sterling and Setra commercial vehicles.
3. Plus a further 37,801 employees engaged in joint sales of Mercedes-Benz and smart cars, Mercedes-Benz, Freightliner, Sterling and Setra commercial vehicles and in central functions.

Asia

	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	6	271	2,730	344
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	5	24	497	357
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1	271	607	1,225
Chrysler Financial Services	–	3	5	8
Services	–	4	78	69
Aerospace	–	11	245	28
Others	2	77	438	1,463

Europe

	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	7	3,456	21,301	91,774
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	2	27	2,085	2,319
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	14	3,456	12,832	55,296
Chrysler Financial Services	–	5	35	13
Services	–	148	6,403	17,166
Aerospace	25	12	6,894	45,434
Others	44	83	2,486	18,909

Africa

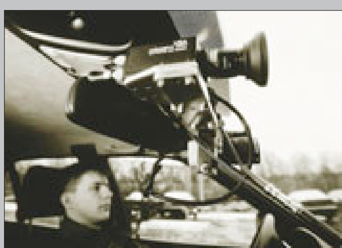
	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	2	119	633	–
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	1	8	92	14
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1	119	513	3,418
Chrysler Financial Services	–	–	–	–
Services	–	1	76	719
Aerospace	–	2	34	–
Others	1	28	29	87

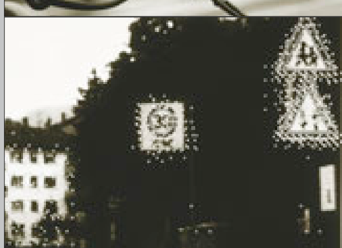
Australia/Oceania

	Production Locations	Sales Organization Locations	Revenues in Millions €	Personnel
Passenger Cars (Mercedes-Benz, smart)	–	154	369	–
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	–	2	65	1
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1	154	188	–
Chrysler Financial Services	–	–	–	–
Services	–	4	33	82
Aerospace	–	1	10	–
Others	2	34	42	112

Research and Technology

The "Technical Vision" research project is concerned with primary safety in cars: a small camera on the vehicle and a computer inside the car assess the traffic situation and perform intelligent stop and go driving operations, for example near traffic signs, lights and pedestrians, and warn the driver of stop signs, red lights and possible collisions.



The development of innovative products with high quality, comfort, safety, efficiency and environmental compatibility – this is the main challenge for the more than 36,000 employees engaged in research and development activities at DaimlerChrysler.

CRADLE OF KNOWLEDGE. The tasks of the Research and Technology Division consist largely of supporting the other divisions in the development of their technology strategies, ensuring the integration of innovation and technology management and creating the technological basis for products with a competitive edge. Our areas of research include micro-electronics, sensor technology, telecommunications and data processing. Here are a few examples of key projects from these areas, in which we have made significant progress in 1998.

STEER-BY-WIRE. Our Research and Technology staff has developed a completely new approach to motor vehicle steering that eliminates the need for a mechanical connection between the steering wheel and the wheels. Because all commands are electronically transmitted, this innovative concept is called steer-by-wire. Using this technology, the steering wheel functions exclusively as an input and feedback instrument for the driver. The optimum position of the wheels is calculated using appropriate control algorithms reflecting the driver's desires as well as vehicle and road conditions and is implemented with corresponding electronic interventions.

The necessary control unit concepts were designed with the aid of comprehensive driving dynamics simulations and have already been tested in a variety of research vehicles.

SAFE DATA BUS. The prerequisite for true drive-by-wire systems, which function without any mechanical or hydraulic backup, is an absolutely reliable electronic system. With the "TTP Data Bus", DaimlerChrysler researchers developed such a system on a solid scientific basis.

TTP stands for Time Triggered Protocol. This means the data bus accepts data that sensors or control units want to send to other units only in exactly defined time segments. At the same time, all components of the system are duplicated. In this way TTP, guarantees the highest degree of safety by recognizing malfunctions and data transmission errors. A brake-by-wire research vehicle equipped with the TTP data bus and electronic brakes has been demonstrating its reliability for several months.

INNOVATIVE ASSISTANCE SYSTEMS. Autonomous technical assistance systems open up a broad spectrum of applications, above all in the areas of safety, comfort and new vehicle and system functions. DaimlerChrysler has already introduced such systems - the dynamic DynAPS autopilot system and the Distronic distance control system.

Research and Technology is developing a number of other assistance systems and demonstrated their technical feasibility in test vehicles. Among them are systems to recognize road conditions and traffic signs, stop-and-go automation and systems for automatically staying in lane. The early involvement of potential users in tests helped identify problems relating to the acceptance of such electronic assistants.

MOBILE WORKSTATION. How can drivers best enjoy the benefits these assistance systems provide? The Drive&Work research project is dedicated to exploring the possibilities. For instance, if a vehicle could move without driver intervention in a traffic jam, the driver's seat could become a mobile office.

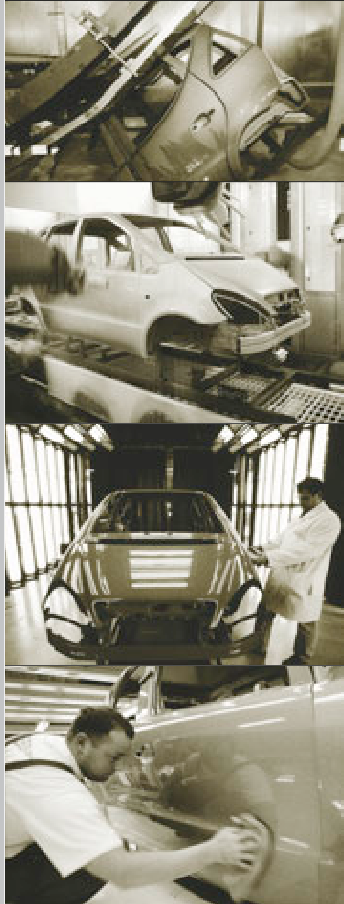
In 1998, we introduced a modified steering wheel for this purpose; its design incorporates a trackball and keyboard. As long as the stop-and-go automation is activated, the driver can turn his or her attention to office applications. As soon as the system prompts the driver to resume driving functions, the office application fades out and the instrument panel reappears.

Simulated driving studies have demonstrated that the system does not have any adverse effects on driver reaction.

ELECTRONIC COUPLING FOR TRUCKS. The objective of the European joint research project "Chauffeur", which was initiated by Daimler-Benz, is to prepare for the introduction of automatic driving functions in highway traffic.

DaimlerChrysler has developed the "electronic hitch" for this purpose. It links two seven-and-a-half-ton trucks with each other without any physical connection. The vehicle in front is steered as usual, while the second one follows the first automatically at a speed-dependent distance of between six and 14 meters. The new system results in significant savings of fuel and highway space.

The electronic hitch has successfully passed first field tests on the "Brenner Autobahn". Additional tests are to follow in the near future on the regular routes of a large European trucking company.



With the “powder slurry” clear paint process used for the A-Class, solvent emissions have been reduced to well below threshold values and paint consumption reduced by 20 %. The National Association of German Industry rewarded this innovation with the Environment Prize for 1998.

DaimlerChrysler and the Environment

The protection of the environment is one of DaimlerChrysler's main corporate objectives. The high quality expected of our products includes high environmental standards and respect for natural resources. Our environmentally compatible measures cover the entire product range and take the complete product life cycle into consideration, from the use of raw materials to product development, production and product use, as well as disposal and recycling.

MEETING INTERNATIONAL STANDARDS. To efficiently implement the environmental philosophy of DaimlerChrysler, it is essential for environmental protection to be rooted in corporate processes. At an early stage, we started to develop environmental management systems based on international standards. Our production locations were certified by external auditors.

All DaimlerChrysler automotive production facilities in Germany and our Jeep assembly plant in Austria have been certified in accordance with the European Eco Audit Ordinance since 1998. Some locations have already been certified for the second time. By applying this experience, we will develop certified environmental management systems at our other locations, as well as in administrative areas, in the years to come.

CONTINUOUS IMPROVEMENT OF ENVIRONMENTAL PRODUCTION STANDARDS. DaimlerChrysler considers itself a forerunner in environmentally compatible production technologies. We systematically promote the use and development of technologies that conserve energy and water and at the same time minimize emissions and solid waste. These efforts include reusing and recycling raw materials and supplies and recycling production waste. From an environmental perspective, the paint processes used in our automotive plants are of special significance. In the past, in the assembly plants of Mercedes-Benz, Chrysler, Plymouth, Jeep and Dodge, we have introduced trendsetting innovations in this area. As an example, the waste-water impact has been lessened considerably with a lead-free cathodic electrocoating system. Another important step was the conversion to water-based paints for a number of coats. As a result, paint solvent emissions have been markedly reduced.

AWARD-WINNING PAINT PROCESS FOR THE A-CLASS. The integrated paint system for the Mercedes-Benz A-Class, awarded the environment prize of the National Association of German Industry in 1998, is another process that sets new standards. Together with the supplier industry, we have succeeded in implementing a process with minimal emissions and reduced energy consumption that is exemplary from both an economic and environmental perspective. By using the "powder-slurry" procedure for clear coats, we have been able to reduce solvent emissions to far below threshold values. At the same time, the electrostatic application process makes it possible to significantly reduce overspray. Paint consumption is 20% lower and paint waste is minimized as well.

ADDITIONAL ADVANCES IN PRODUCT-INTEGRATED ENVIRONMENTAL PROTECTION. We are committed to developing products that are environmentally compatible in their respective market segments.

For example, by using intelligent light weight construction concepts for the new S-Class, particularly in the chassis and bodywork, we have reduced vehicle weight by up to 662 pounds. Improved engines and aerodynamic drag have lowered fuel consumption by an average of 17% compared to the previous model. Another contribution to the conservation of resources is the use of renewable raw materials (an average of 51 pounds per vehicle) and recycled materials. Recycled materials now represent 14% of total plastics in the vehicle compared to 6.5% in the predecessor model.

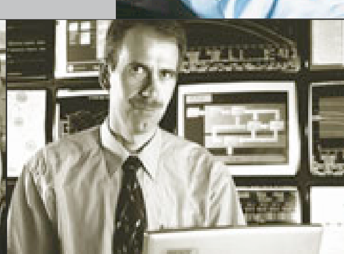
Increasing recycled materials is a focus for our Chrysler, Plymouth, Jeep and Dodge vehicle products as well. Our objective is to boost the proportion of recycled plastics to 30% by 2002.

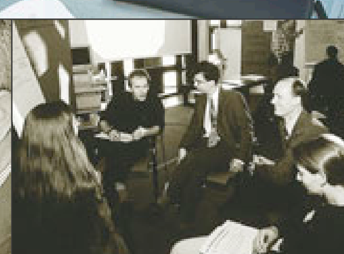
In August, the smart city coupe was ranked first on the German Automobile Club's environmental list. In addition to low pollutant emissions and fuel consumption, the comprehensive mobility concept was a key factor in this distinction.

Human Resources

DaimlerChrysler represents the merger of two strong partners. Our strength is based on the enthusiasm and creativity of our employees. The results are successful products and services, and in consequence, more secure jobs, rising levels of employment and an increased sharing in profits and capital by the staff at all levels of the company.

Lifelong learning: Everywhere at DaimlerChrysler we are promoting the professional development of our employees in courses, seminars and discussion groups. The Auburn Hills and Stuttgart locations are linked for this purpose by a video conferencing system.



MORE THAN 19,000 NEW JOBS CREATED. As of December 31, 1998, DaimlerChrysler employed 441,502 employees worldwide (300,068 in the previous year at Daimler Benz, and 125,581 at Chrysler). Of these, about 233,000 are employed in Germany and 117,000 in the United States. Adjusted for changes resulting from the consolidation, DaimlerChrysler created more than 19,000 new jobs in 1998.

A COMMON CULTURE AS THE GOAL. The international coordination and global integration of our human resources activities has become more important than ever before. Subjects such as the integration of company cultures, global exchange programs and compensation programs are thus in the forefront of our concern. It is our goal in the context of integration to create a DaimlerChrysler culture which preserves regional differences and strengths.

LEADERSHIP AND MANAGEMENT DEVELOPMENT. The continued professional and personal development of our employees is the goal of our international personnel development program. In 1998, we continued to improve the quality of our executive management, furthered the development of the next generation of executives and also developed a future-oriented level of qualifications and team spirit. When filling management positions, we have consciously promoted selected executives with high potential.

The role of the DaimlerChrysler Corporate University (DCCU) is to support the development of executives utilizing four major programming elements: Executive Education, Leadership Development, Strategic Dialogue and Knowledge Management. With its worldwide programs, the DCCU is an important element of the integration process.

RECRUITING CAMPAIGN FOR YOUNG EXECUTIVES LAUNCHED. With a recruiting campaign for young executives launched in 1998, we are creating the preconditions for uninterrupted and successful growth in the future. In this connection, we have expanded the regional groups of young executives and increased hiring of new graduates, especially in the fields of mechanical engineering, electrical engineering and computer sciences.

In Germany, we have once again increased the number of new trainees by 10% to 3,300 – more than 10,000 trainees are now employed by the company.

BROAD ACCEPTANCE OF OUR PART-TIME EMPLOYMENT PLAN FOR SENIOR STAFF. For us, an attractive part-time employment model for senior staff is one way of ensuring a competitive work force structure that makes a significant contribution to guaranteeing a future supply of junior employees. DaimlerChrysler was the first company in the German automobile industry to offer its work force in Germany a part-time employment model for senior staff. The nearly 2,000 part-time contracts for senior employees that were concluded in the year under review demonstrate the success and the broad acceptance of our plan.

Employees

	1998	1997
DaimlerChrysler	441,502	425,649
Passenger Cars (Mercedes-Benz, smart)	95,158	91,753
Passenger Cars & Trucks (Chrysler, Plymouth, Jeep®, Dodge)	123,180	118,639
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	89,711	85,071
Vehicle Sales Organization[1]	31,280	30,518
Chrysler Financial Services	3,513	3,405
Services	20,221	14,898
Aerospace	45,858	43,521
Other[2]	32,581	37,844

1) Mercedes-Benz and smart, Commercial Vehicles.
2) Headquarters, Other.

CONTINUATION OF A RESULTS- AND PERFORMANCE-ORIENTED PAY POLICY. With a performance-oriented pay policy, DaimlerChrysler ensures that its salaries and wages are globally competitive and that it has the means to attract highly qualified and motivated employees.

Furthermore, it is a part of our "value-based management" to have our employees share in the success of the company. The profit-sharing plans for employees at DaimlerChrysler reflect the success of business operations and the very considerable contribution made by the staff.

It is an important ingredient of our pay policy for manager's to link compensation to performance of company goals.

DIVERSITY AND EQUALITY OF OPPORTUNITY AS AN OPERATING PRINCIPLE. On Day One, the Chairmen of the Board of Management of DaimlerChrysler officially signed a statement that underscored our support for diversity. This "Diversity Statement" reflects our commitment to valuing differences in providing an environment that supports equality.

A WORD OF THANKS TO OUR STAFF. We thank our qualified and committed employees for their performance and their commitment. Our gratitude is also due to the employees' representatives for their constructive cooperation.

A N A L Y S I S O F T H E F I N A N C I A L S I T U A T I O N

The 1998 fiscal year was characterized by an excellent business development and a marked and sustained boost in earning power. Operating profit increased by 38% to € 8.6 billion and the consolidated net income adjusted for non-recurring items reached € 5.2 billion. Return on net assets of 11.6% was calculated on the basis of the revised and unified controlling parameters of the DaimlerChrysler Group. Return on Net Assets is thus significantly above the capital costs ratio of 9.2%. Cash flow from operating activities has further improved. The structure of the cash flow statement and balance sheet ratios are still influenced by the ongoing expansion in the financial services business.

MERGER HANDLED ACCORDING TO THE POOLING OF INTERESTS METHOD. Subsequent to completion of the voluntary exchange offer in the fall of 1998 in which the former shareholders of Daimler-Benz tendered more than 98% of their shares in exchange for DaimlerChrysler shares, all conditions for the application of the pooling of interests method of accounting were fulfilled. According to the pooling of interests method of accounting the consolidated financial statements for prior years are also presented as if DaimlerChrysler had always been a combined company.

CONTINUED INCREASE IN EARNING POWER. DaimlerChrysler increased its earning power in 1998 and posted an operating profit of € 8.6 billion. This is an increase of 38% compared to the 1997 figure of € 6.2 billion. Due to their non-recurring nature, the operating profit does not include merger expenses totaling € 685 million. It was especially pleasing that nearly all business units were once again able to improve their operating profit in 1998. At € 4.2 (1997: 3.4) billion, the greatest contribution to operating profit by far was made by the Passenger Cars and Trucks Chrysler, Plymouth, Jeep, Dodge division. The improvement over the previous year was primarily due to increased sales volume and lower warranty costs. The effects of a strike dampened the 1997 operating profit for this division by the amount of approximately € 0.5 billion. The Passenger Cars Mercedes-Benz, smart division was once again able to increase the high result level of the preceding years and achieved an operating profit of € 2.0 (1997: 1.7) billion, in spite of the model change to the new S-Class and the market launch of the smart. A jump in earnings was achieved by the Commercial Vehicles Mercedes-Benz, Freightliner, Sterling, Setra division. Their operating profit increased from € 0.3 billion to 0.9 billion.

The fundamental upgrading of the product line in recent years and the systematic addition of attractive new models is paying off in all segments of the automotive business of the Group. In addition to an expansion of volume, this also contributes to a clear increase in profit margin. Additionally, the current programs for cutting costs and increasing efficiency in all business units are making an important contribution to the improvement of profitability.

In our service activities, too, the dynamic business and income trend of recent years has continued unabated in 1998. Chrysler Financial Services were able to increase operating profit by 11% to € 0.7 billion. For the services integrated under debis the further increase in leasing and sales financing volume, together with the continued growth of IT Services and Telecom Services, led to a jump in earnings of 59% to € 0.4 billion.

The Aerospace division continued to profit from the strong demand for commercial aircraft and the outstanding marketing success of the Airbus product line, especially the A320-family of aircraft. In 1998, DaimlerChrysler Aerospace agreed on a repayment of approximately € 0.9 billion to the Federal Republic of Germany in complete discharge of the development grants received in the past. This payment, combined with the one made in 1997 of € 0.7 billion, discharges all repayment obligations still existing in connection with the grants received during the development phase of the Airbus program. Of the repayment amount, € 0.2 billion was expensed in 1998. The remaining portion has been capitalized and will be amortized over those aircraft delivered in the future to which the repayments are related. The operating profit of the Aerospace division increased from € 0.3 billion to € 0.6 billion.

While the business units Automotive Electronics and MTU/ Diesel Engines, which are included in the Other segment, were able to post further improvements in profitability, the situation at Rail Systems continued to be unsatisfactory in 1998. The financial results of Rail Systems were negatively impacted by further restructuring measures and goodwill write-offs. In January 1999, we agreed with ABB to take over its 50% stake in Adtranz. We believe we will be able to implement the necessary structural measures faster and more decisively in order to improve the earning power of the world's leading rail technology company more quickly. The results of this segment also include gains on disposals of the semiconductor activities and the sale of two buildings at Potsdamer Platz. In addition, the expenses for corporate research functions are included in the results of this segment.

Operating Profit by Segments

in Millions	98 US $	98 €	97 €
Passenger Cars (Mercedes-Benz, Smart)	2,338	1,993	1,716
Passenger Cars and Trucks (Chrysler, Plymouth, Jeep®, Dodge)	4,942	4,212	3,368
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	1,110	946	342
Chrysler Financial Services	765	652	586
Services	460	392	246
Aerospace	731	623	284
Other	(171)	(146)	(225)
Eliminations	(93)	(79)	(87)
DaimlerChrysler-Group	10,082	8,593	6,230

INCREASE IN FINANCIAL RESULTS. In 1998, the financial results reached € 0.8 billion and were 21% higher than in 1997; however, there were significant changes in their makeup. Income from affiliated, associated and related companies declined by € 0.6 billion to € (0.1) billion. The financial income for the year 1997 included the gain from the disposal of the stake in Cap Gemini Sogeti. In addition, the income of Airbus Industrie declined noticeably due to invoicing factors. Whereas interest income at € 0.7 billion was less than the amount for 1997 due to lower interest rate levels, other financial results at € 0.1 billion (1997: minus 0.8 billion) are positive. In 1997, especially due to the appreciation of the US dollar against the D-Mark, other financial results were burdened by the settlement and valuation of foreign exchange contracts which did not qualify for hedge accounting. The improvement in 1998 over 1997 reflects the upward revaluation of the D-Mark in relation to the US dollar in 1998.

COMPARABLE GROUP NET INCOME CLEARLY IMPROVED. The net income reported in the income statement is € 4.8 billion, a decrease of € 1.7 billion from 1997. However, net income figures for 1998 and 1997 include non-recurring items and are therefore not comparable. The net income for 1997 included tax benefits amounting to € 2.5 billion resulting from the special distribution of € 10.23 (DM 20.00) per share of Daimler-Benz AG and from the reversal of valuation allowances on deferred tax assets. The net income for 1998 is reduced by costs amounting to € 401 million (after taxes) related to the implementation of the merger. If adjusted for these non-recurring items, the net income for 1998 at € 5.2 billion is 29% higher than the comparable figure of € 4.1 billion for 1997. The 1998 extraordinary result of € 129 million is related to DaimlerChrysler Corporation's early extinguishment of borrowings carrying a high interest rate which would have run until the year 2020. After adjusting for the special items, earnings per share increased from € 4.28 in 1997 to € 5.58 in 1998.

DISTRIBUTION OF € 2.35 PER SHARE. Due to the favorable trend in earnings in the operating business, we are proposing to our shareholders at the Annual General Meeting to be held on May 18, 1999 to declare a dividend of € 2.35 (DM 4.60) per share for the 1999 fiscal year. On the basis of an aggregate share capital entitled for dividends of € 2,561 million the total distribution amount will reach € 2,356 million.

Consolidaded Statements of Income

in Millions

	98 US $	98 €	97 €
Revenues	154,615	131,782	117,572
Cost of sales	(121,692)	(103,721)	(92,953)
Selling, administrative and other expenses	(19,041)	(16,229)	(15,621)
Research and development	(5,833)	(4,971)	(4,408)
Other income	1,425	1,215	957
Merger costs	(803)	(685)	–
Income before financial income and income taxes	8,671	7,391	5,547
Financial income, net	896	763	633
Income before income taxes and extraordinary item	9,567	8,154	6,180
Income taxes	(3,607)	(3,075)	482
Minority interests	(153)	(130)	(115)
Income before extraordinary item	5,807	4,949	6,547
Extraordinary item, net of taxes	(151)	(129)	–
Net income	5,656	4,820	6,547
Net income excluding non-recurring items[1]	6,126	5,221	4,057

[1]) 1998: merger costs (after taxes); 1997: tax reduction due to the special distribution of € 10.23 (DM 20.00) per share of Daimler-Benz AG (€ 1,487 million) and reversal of the valuation allowance on deferred tax assets (€ 1,003 million)

FURTHER DEVELOPMENT OF OPERATING PROFIT AND SEGMENT REPORTING. In 1997, the Financial Accounting Standards Board (FASB) revised the requirements for segment reporting with the newly issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". In this respect the definition of operating profit according to SFAS 14 is no longer applicable. SFAS 131 requires that the reporting of segment financial results be consistent with the internal reporting system and with the information used by operating management to determine the allocation of financial resources among the segments (management approach).

In light of the merger and the application of SFAS 131, we have developed segment reporting and a definition of operating profit that achieves the goal of better international comparability and, at the same time, provides the best possible description of the economic situation for each segment.

The following table shows the transition from income before financial income and income taxes reported in the statements of income to the segment operating profit.

Reconciliation to Operating Profit 1998

in Millions

	98 €	97 €
Income before financial income and income taxes	7,391	5,547
+ Interest costs of pensions, net	688	721
+ Operating income from affiliated, associated and related companies	(15)	74
+ Gains on unallocated financial instruments	(156)	(112)
+ Merger costs	685	–
Operating Profit	8,593	6,230

German and US companies treat company pensions in fundamentally different ways. German companies normally carry the pension liabilities in the balance sheet which represent provisions for future pension payments. US companies are required to fund pension obligations on an ongoing basis. This funding takes the form of contributions by the US company to external pension funds. The different method of funding pension obligations by German and US companies results in significant differences in the amount of pension expense included in the statement of income. Pension cost for a US company represents service costs and interest cost reduced by investment earnings. In contrast the accrual to pension provisions in the consolidated statements of a German company comprise full interest costs in addition to the service costs. Because of this inherent difference, we are removing pension interest cost, net of plan investment income, from the calculation of operating profit.

In the calculation of operating profit, we are including the earnings and losses of those affiliated, associated and related companies, which are not considered to be only financial investments but in which we have entrepreneurial interest. Gains and losses on the settlement of financial instruments, which are intended to be hedges for our operations, but do not qualify for hedge accounting treatment under US GAAP, are also included in operating profit.

According to the new system, interest on advance payments for long-term contracts is excluded from operating profit. Henceforth, DaimlerChrysler AG corporate research costs are considered Group expenses and are no longer excluded from the calculation of operating profit. In 1998, merger costs were removed from the calculation of segment operating profit. On the whole, the new calculation method results in a slightly higher operating profit. The following table compares the old and new calculation methods.

Reconciliation of Operating Profit 1998 in Millions of €	*DaimlerChrysler Group*	*Passenger Cars Mercedes-Benz, smart*	*Passenger Cars and Trucks Chrysler, Plymouth, Jeep, Dodge*	*Commercial Vehicles Mercedes-Benz, Freightliner, Sterling, Setra*	*Chrysler Financial Services*	*Services*	*Aerospace*
Operating profit according to SFAS 14 (old)	7,613	1,913	4,007	865	652	374	537
Interest costs of pensions, net	688	179	165	106	–	12	143
Operating income from affiliated, associated and related companies*)	80	27	40	5	–	6	33
Gains on unallocated financial instruments	(156)	(126)		(30)	–	–	–
Interest on advance payments on long term contracts	(154)	–	–	–	–	–	(90)
Corporate research of DaimlerChrysler AG	(163)	–	–	–	–		
Merger costs	685	–	–	–	–	–	–
Operating profit according to SFAS 131 (new)	8,593	1,993	4,212	946	652	392	623

*) The income from Airbus Industrie was included in the previous definition of operating profit.

COMMON PERFORMANCE MEASURES ESTABLISHED THROUGHOUT GROUP. For guidance and control of the DaimlerChrysler Group and its business units, we have placed the controlling measures of the two companies on a uniform basis. This adjustment was made easier by the fact that the controlling factors of the two partners were already based on the principles of value-oriented company management and were similar in their features. The new control system permits and promotes decentralized responsibility, transparency across the business units, and investment allocation oriented toward capital markets' principals in all units of the DaimlerChrysler Group.

For control purposes, we distinguish between the Group level and the operative business level. At the Group level, we use Net Operating Income, an after-tax measure of results, which is set in relation to the capital invested in the Group, to determine the Group profit statistic Return on Net Assets (RONA). This shows the extent to which the DaimlerChrysler Group as a whole is achieving or exceeding the return expectations of its investors. The expected return, or weighted average cost of capital for the Group, is defined as the minimum return which the investors expect for the investment of equity and borrowings. These capital costs are determined primarily by the interest rate for long-term bonds plus a risk premium for investments in stocks. At the present time, we calculate the Group's weighted average cost of capital to be 9.2% after taxes.

For the industrial business units, we continue to use operating profit, a measure of results before interest and taxes, since this figure accurately depicts the scope of responsibility of operative management. As a capital basis in this respect we also use net assets, that is, assets less those liabilities which are not subject to interest payments. The minimum expected return on net assets is 15.5%. The costs of capital in the new measurement system are largely consistent in their levels of expectation to the 12% on capital employed which was formerly prescribed for the business units of the Daimler-Benz Group as the minimum required rate of return. For the financial services business units, it is customary to use return on equity as the controlling standard.

In addition to the minimum expected return on invested capital, the individual business units are managed on the basis of strategic return targets and growth goals, which are oriented to the best competitor in the respective industry. In addition, the economic value added, defined as operating profit after deduction of the average capital costs, serves as a further measure for achieving our profitable growth. In the individual business units, specific value drivers were defined which are in accordance with the control variables for the Group, complement them and serve as parameters for the operating units for increasing the value of the corporation.

Net Assets and Return on Net Assets

	1998 In Billions of €	1997 In Billions of €	1998 %	1997 %
	Annual Average Net Assets		Return on Net Assets	
DaimlerChrysler Group (after taxes)	56.5	51.4	11.6	10.2
Industrial business (before interest and taxes)	8.0	7.2	25.1	23.8
Passenger Cars (Mercedes-Benz, smart)	17.7	16.1	23.8	20.9
Passenger Cars and Trucks (Chrysler, Plymouth, Jeep®, Dodge)	5.5	5.3	17.1	6.5
Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra)	0.7	0.5	17.5	17.4
Services[1]	1.4	0.8	43.0	36.2
Aerospace[2]	1.2	1.2	(18.4)	(11.2)
Rail Systems, Automotive Electronics, MTU/Diesel Engines				
	Stockholders' equity		Return on Equity[3]	
Financial Services				
Chrysler Financial Services	3.0	2.9	21.8	20.0
debis Financial Services	1.6	1.2	17.4	16.3

[1]) Excluding financial services
[2]) The organization of business procedures in the aerospace industry under which part of the capital employed is generally financed by advanced payments results in a relatively low capital base and correspondingly higher RONA value; this is therefore not directly comparable with RONA values from other branches of industry
[3]) Before taxes

Net assets are determined on the basis of book values, as shown in the following table.

Net Assets[1] of the DaimlerChrysler-Group

in Millions	98 US $	98 €
Stockholders' equity	35,629	30,367
Minority interests	810	691
Financial liabilities of the industrial segment	10,869	9,264
Pension provisions of the industrial segment	19,394	16,530
Net assets	66,702	56,852

[1]) Year-end values; annual average: € 56.5 billion (US $ 66.3 billion)

For the individual industrial businesses, the net assets are derived from the asset side, since these businesses are often not legal units and therefore also do not have an evolved financing structure. Net assets are derived from total assets by deducting non-interest bearing debt. In terms of value, derivation from liabilities and from assets comes to the same results.

The return on net assets for the DaimlerChrysler Group, based on the net operating income in the amount of € 6.6 billion, rose in the 1998 fiscal year to 11.6% (1997: 10.2%), and was significantly higher than the average costs of capital. Especially encouraging was the fact that all divisions succeeded in improving their return on net assets or their return on equity compared to 1997 and that the industrial units overall exceeded the minimum expected return of 15.5%. The return on net assets for the rail systems was negative due to the business problems at Adtranz.

Reconciliation to Net Operating Income in Millions	98 €	97 €
Net income	4,820	6,547
Non-recurring items[1]	401	(2.490)
Net income adjusted for non-recurring items	5,221	4,057
Minority interests	130	115
Interest expense related to industrial activities, after taxes	476	406
Interest cost of pensions related to industrial activities, after taxes	748	674
Net operating income	6,576	5,252

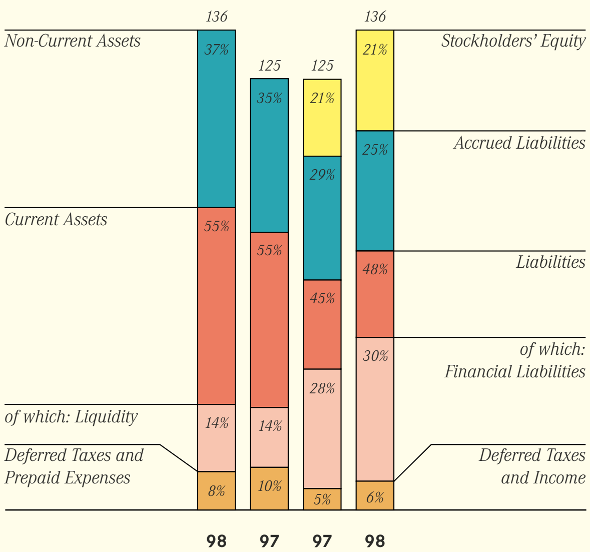
[1]) 1998: merger costs (after taxes); 1997: tax reduction due to the special distribution of € 10.23 (DM 20.00) per share of Daimler-Benz AG (€ 1,487 million) and reversal of the valuation allowance on deferred tax assets (€ 1,003 million)

MARKED INCREASE IN THE BALANCE SHEET TOTAL. The comparison between the amounts shown in the balance sheet for December 31, 1998 and year-end 1997 are greatly affected by the exchange rates applicable to assets and liabilities denominated in currencies other than Euro or D-Mark. For example, the exchange rate applicable for converting the US $ balance sheets of the American companies in the Group at the end of 1998 fell to DM 1.67 compared with DM 1.79 one year previously. Correspondingly, the exchange rate of the Euro against the US $ increased from US $ 1.09 to 1.17. This means that the overall increase in the consolidated balance sheet total, which rose 9% to € 136.1 billion is somewhat understated compared to the development of original balance sheets totals in local currencies. The increase in the balance sheet total results primarily from the continuing expansion in the leasing and sales financing business. On the assets side leased equipment increased by € 3.6 billion and receivables from financial services by € 4.8 billion. Together these items now amount to € 41.1 billion, representing approximately 30 % of our total assets. These are balanced on the liabilities side by financial liabilities in the amount of € 40.4 (1997: 34.4) billion.

Fixed assets rose by 12% to € 49.6 billion. This was mainly due to the growth in leased equipment, whereas property, plant and equipment only rose by 3% to € 29.5 billion. Inventories – less advance payments received – are recorded as € 11.8 billion in the consolidated balance sheet. Their share of the balance sheet total remains almost unchanged at 8.7%. Receivables from sales of goods and services and other receivables have fallen by € 0.3 to 18.4 billion overall. In the previous year this figure included tax receivables in the amount of € 1.5 billion relating to the special distribution of Daimler-Benz AG. Liquid assets totaled € 19.1 billion at December 31, 1998 and exceeded the amount for the previous year by € 1.8 billion.

On the liabilities side, stockholders' equity increased from € 28.0 to 30.4 billion. Despite the negative effects from currency translation the equity ratio, adjusted for dividend payments, remains at 21%, the level of the previous year. Excluding the leasing and sales financing business, the equity ratio amounted to 28% (1997: 28%). Overall the accrued liabilities recorded on the balance sheet fell by € 1.2 to 34.6 billion due to the fact that DaimlerChrysler Corporation funded a portion of its postretirement healthcare and life insurance benefits liability.

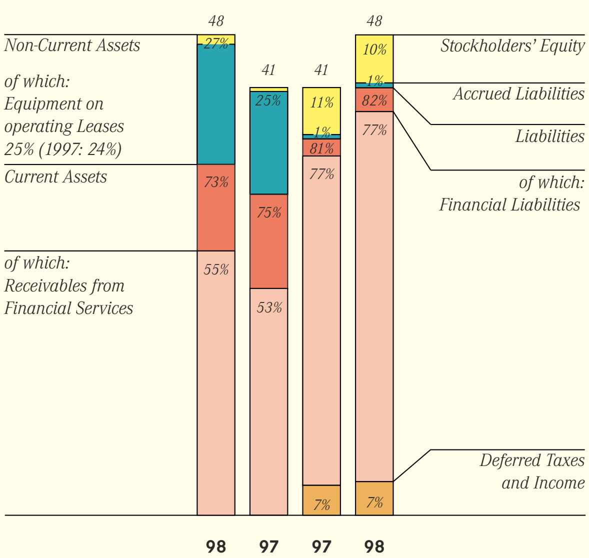
Balance Sheet Structure
In Billions of €



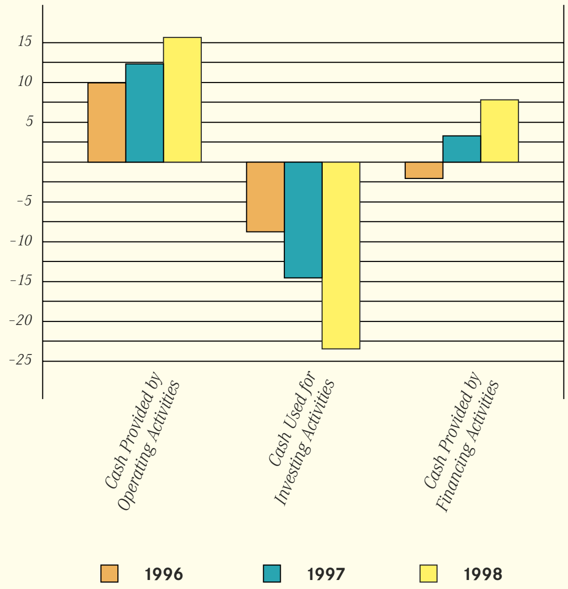
CONTINUED GROWTH IN THE FINANCIAL SERVICES BUSINESS. In 1998, the leasing and sales financing activities in the DaimlerChrysler Group were performed mainly by Chrysler Financial Services and debis Financial Services. In 1999, these two business units will be merged within DaimlerChrysler Services (debis) AG. In order to make the influence of this rapidly growing business on the consolidated financial statements more transparent, we have presented in the consolidated balance sheet and statements of income and cash flow the consolidated figures for our leasing and sales financing activities in addition to the figures for the whole Group. In the interest of comparability with other financial services companies, we have presented the financial services activities as if they were performed by an independent company (stand alone approach). Consequently, the vehicles included under equipment on operating leases are, for example, reported at market value and not at the Group's manufacturing costs; the funds which are loaned within the DaimlerChrysler Group (inter-company loans) are presented as financial liabilities.

Overall, the financial services business shows an income before financial income and income taxes of € 936 million (1997: 792 million). This increase in income is largely due to the continuing very brisk business in Germany and the USA, where we were able to enjoy in particular the benefits of greater sales volumes of our cars and at the same time greater market penetration. The balance sheet total of the leasing and sales financing business increased by 18% to € 47.9 billion. The largest share continued to be receivables from financial services at € 26.5 billion (1997: € 21.7 billion). This is balanced on the liabilities side mainly by financial liabilities, which in the year under review increased by € 5.4 billion to € 36.8 billion as a result of the continuing growth in volume. Stockholders' equity used in the financial services business amounted to € 4.6 billion at year-end and represents approximately 10% of the balance sheet total.

Balance Sheet Structure of the Financial Services Business
In Billions of €



Cash Flow
In Billions of €



HIGHER CASH FLOW FROM OPERATING ACTIVITIES. In 1998, cash flow provided by operating activities adjusted for changes in the consolidated group and currency effects grew by 35% and reached € 16.7 billion (1997: € 12.3 billion). This was primarily caused by improved financial results (before non-cash expenses and income). Cash used for investing activities in the amount of € 23.4 billion (1997: € 14.5 billion) was influenced by the ongoing expansion of the leasing and sales financing business. Additions to equipment on operating leases increased by € 2.1 billion to € 5.3 billion net. At the same time capital tied up with respect to receivables from financial services grew by € 2.8 billion. In addition, we further increased our investments in the money and capital markets. In comparison to 1997, cash provided by financing activities more than doubled and reached € 6.8 billion. This resulted primarily from higher net borrowings in the amount of € 7.9 billion (1997: € 6.2 billion). In 1997, cash flow from financing activities was impacted by Chrysler Corporation's acquisition of € 1.9 billion of its common stock as part of a share repurchase program. The special distribution of Daimler-Benz AG in connection with the tax refund and the subsequent capital increase caused substantial flows of capital which, however, level off in the calculation of cash flow from financing activities. Overall, development of individual cash flows caused a € 0.4 billion reduction in cash and cash equivalents with initial maturity of less than 3 months to € 6.3 billion. At the same time liquid assets which also include investments and securities with longer maturities increased from € 17.3 billion to € 19.1 billion.

FINANCING ACTIVITIES MARKED BY DISTRIBUTE-RECAPTURE PROGRAM OF DAIMLER-BENZ. In 1998, changes in German tax laws caused us to distribute € 3.8 billion of retained earnings of Daimler-Benz AG, mostly generated during the high-earning 80's, to stockholders. This resulted in an additional distribution in 1998 of € 10.23 (DM 20) per Daimler-Benz share. The former Daimler-Benz stockholders received a total dividend of € 5.3 billion which represents the retained earnings plus the tax refund from the German fiscal authorities. In order to restore our original balance sheet ratios, we subsequently undertook a capital increase in the overall volume of € 3.8 billion by way of a rights offering. More than 90% of our stockholders participated in this offering.

The group's funding requirements will be influenced by the continued growth of the financial services business. To meet this need and to optimize capital costs we are resorting primarily to international money and capital markets. In 1998 we again made use of asset backed securities to limit group debt by securitizing receivables from leasing and sales financing.

CENTRAL REFINANCING MANAGEMENT. In the DaimlerChrysler Group, we will coordinate the funding of our operations on a centralized basis by using our regional holding and finance companies to obtain funds in the money and capital markets. Longer-term financing activities in the international capital markets will generally be carried out with issues which are guaranteed by DaimlerChrysler AG. This will ensure that we come to the financial markets with a consistent credit standing, and therefore will obtain the most economical funding for the Group.

CREDIT RATING AT A HIGH LEVEL. DaimlerChrysler AG is rated by the international firms Moody's Investors Service and Standard & Poor's for both short- and long-term borrowing. The long-term borrowing ratings of A1 and A+ and short-term borrowing with Prime-1 and A-1 are highly regarded internationally. In fact, Moody's short-term Prime-1 rating is the highest category possible. Since DaimlerChrysler AG guarantees loans issued by our group companies, they also benefit from our high credit rating. As part of the business combination, DaimlerChrysler AG has guaranteed the outstanding long-term debt obligations of the former Chrysler Corporation and Chrysler Financial Company. Following this action, both rating organizations upgraded their ratings of these liabilities, whose long-term rating was slightly below the referenced categories, to the level of A1 or A+.

ACTIVE INTEREST MANAGEMENT. The liquid assets available in the DaimlerChrysler Group are invested, partly in the money markets and to a larger extent in the capital markets, with a view to both the cash flow needs of the Group and the optimization of returns. The division between the two investment priorities (asset allocation) is the basis of our interest management.

The investments in the capital markets are governed in accordance with a risk limit established by the Board of Management using the value-at-risk method. The instruments of modern portfolio management are used to invest the liquid funds in fixed-interest securities and stocks. In the asset and foreign currency management, derivative financial instruments are only used to hedge against market risks. For ongoing determination and tracking of investments and market values, as well as results, we utilize a central front-end system.

In accordance with the guidelines established by the Bank for International Settlements (BIS) on risk management in banks, the trading divisions are separated organizationally, physically and in their technical systems from the administrative functions of settlement, financial accounting and controlling.

EURO INTRODUCED AS GROUP CURRENCY. After the bilateral exchange rates between the currencies of the eleven participating states were established by the European Council of Heads of States and Governments in early May 1998, the euro was officially introduced as the common currency on January 1, 1999. Due to the global orientation of our activities, we wholeheartedly welcome this step and regard it as a definite opportunity for our company. In the future, the benefits of productivity increases in our goods and services manufactured in the euro area will no longer be reduced by exchange rate fluctuations.

We have introduced the euro and replaced the D-Mark as the group-wide currency on January 1, 1999. To this end, the invoicing and reporting systems have been converted to euros. The cost of the conversion incurred during the past years totaled approximately € 100 million. These conversion costs will be offset in the long term by annual savings of approximately € 50 million due to lower transaction and forward exchange cover costs.

HEDGING EXCHANGE RATE RISKS. The international orientation of our business activities results in streams of deliveries and payments denominated in a variety of currencies. Generally, the exports from Germany exceed the imports invoiced in other currencies, therefore, DaimlerChrysler is exposed to exchange rate risks. The net exposure resulting after offsetting exports and imports in the individual currencies is regularly assessed in the context of central currency management and is hedged with appropriate financial instruments on the basis of continuously reviewed currency rate expectations. In the process, the opposing currency risks of DaimlerChrysler Corporation are netted against the currency risks of DaimlerChrysler AG. The net assets of the Group which are invested abroad in subsidiaries and affiliated companies are not included in the management of currencies.

As a result of the introduction of the euro on January 1, 1999, risks associated with the currencies of the countries participating in the euro will no longer exist. Henceforth, the Group will be subject to exchange rate exposure from transactions denominated primarily in the currencies listed in the following table. The table demonstrates the negative effect of a 10% upward revaluation of the euro on expected cash flows before taxes in the years 1999 and 2000, after considering hedging actions which have been taken until December 31, 1998.

Exchange Rate Sensitivities in 1999

in Billions of €

	USD	CAD	GBP	JPY	Other	Total
Gross amount of foreign currency exposure	11.5	5.5	3.1	1.8	2.1	24.0
Gross amount of foreign currency netting	4.3	5.7	0.2	0.6	0.4	11.2
Net currency exposure	7.2	(0.2)	2.9	1.2	1.7	12.8
Negative effect of a 10% appreciation of the euro after hedging[1)]	0.11	–	0.05	–	0.03	0.19

Exchange Rate Sensitivities in 2000

in Billions of €

	USD	CAD	GBP	JPY	Other	Total
Gross amount of foreign currency exposure	11.6	5.7	3.3	1.7	3.4	25.7
Gross amount of foreign currency netting	6.0	5.9	0.3	0.3	1.3	13.8
Net currency exposure	5.6	(0.2)	3.0	1.4	2.1	11.9
Negative effect of a 10% appreciation of the euro after hedging[1)]	0.24	–	0.13	0.06	0.16	0.59

[1]) On cash flow before taxes, in consideration of existing hedging contracts

FUTURE RISKS. As a globally active company, DaimlerChrysler is subject to a number of risks intrinsic to its corporate activities. Above, we have described the risks resulting from the development of currency exchange rates, including the steps we take to insure ourselves against them. Additional uncertainties result from the further economic development of the national economies important to us, which are further reinforced by the strongly cyclical nature of demand in some of our relevant markets. In particular, the automotive sector is characterized by strong competition, which should intensify over time due to worldwide excess capacities. Like all automotive manufacturers, the DaimlerChrysler Group is affected by increasingly strict emissions and fuel consumption requirements and safety standards in the sales markets for the vehicles it produces. However, we believe that due to the merger of two strong partners and the targeted promotion of our innovative strength, we are well prepared to address these risks and uncertainties. We are confident that we will also be able to offer our customers attractive and highly competitive products and services in the future.

We utilize effective internal control systems to determine and deal with existing risks. These involve the use of group-wide standardized guidelines, running reliable software, selecting and training qualified personnel and ongoing checks by our internal auditors. As part of the merger, the existing internal control systems will be combined into a risk management system that meets the requirements of the German Business Monitoring and Transparency Act (KonTraG). This will enable the Board of Management to identify potential risks at an early stage and to initiate appropriate countermeasures.

CHANGEOVER TO THE YEAR 2000. We have made an inventory of the measures which are necessary for the adaptation of our information processing and communications systems to the year 2000. This study of year 2000 compliance did not only concentrate on the data processing systems but also on the technical equipment and machines in our production facilities and spare parts warehouses, as well as the research and development facilities, and it also included our suppliers and the dealer organizations. In the main, the necessary conformance measures will be implemented decentrally within the operational business units. A global project organization will manage the exchange of know-how throughout the Group and coordinate the implementation process. Using a reporting system called into being specifically for this purpose, the Board of Management will be informed at regular intervals of the progress of the project and the critical areas of action.

In order to allow a smooth transition to the year 2000, all critical systems not yet adjusted to the date change are targeted to be modified or replaced by the third quarter of the current year. Together with the other automobile manufacturers in Germany and the United States we are also working with our suppliers so that they can make the necessary preparations for the year 2000 changeover. We anticipate that our key suppliers who have not yet completed the conversion process will undertake the appropriate adjustment measures in time.

The following timetable shows DaimlerChrysler's internal target dates for compliance and the estimated compliance status as of December 31, 1998, by area:

	Status of Compliance as of December 31, 1998	Planned Target Date for 100% Compliance
Critical business computer systems	99%	December 1998
Critical plant floor equipment	65%	September 1999
Production and critical non-production suppliers	67%	June 1999
Vehicle components	100%	September 1999
End-user computing	33%	September 1999
Dealers	65%	September 1999

The costs for the whole changeover process are expected to amount to approximately € 240 million.

EVENTS AFTER THE END OF THE 1998 FISCAL YEAR. Beyond the developments already described, no events occurred after December 31, 1998 which are of major significance for DaimlerChrysler and would lead to a change in the assessment of the Group. The course of business in the first months of 1999 confirms the statements in the chapter Outlook.

This Annual Report contains forward-looking statements based on beliefs of DaimlerChrysler management. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and "project" are intended to identify forward-looking statements. Such statements reflect the current views of DaimlerChrysler with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products, lack of acceptance of new products or services and changes in business strategy. Actual results may vary materially from those projected here. DaimlerChrysler does not intend or assume any obligation to update these forward-looking statements.

PRELIMINARY NOTE

The accompanying consolidated financial statements (consolidated balance sheets as of December 31, 1998 and 1997, consolidated statements of income, cash flows and changes in stockholders' equity for each of the years in the three-year period ended December 31, 1998) were prepared in accordance with the United States Generally Accepted Accounting Principles.

In order to comply with § 292 a HGB (German Commercial Code), the consolidated financial statements were prepared in Deutsche Mark and supplemented with a consolidated business review report and further explanations. Therefore, the consolidated financial statements, which have to be filed with the commercial register and published in the Federal Gazette, comply with the Fourth and Seventh Directive of the European Community. To interpret these directives we relied on the statement of the Committee for Accounting Directives, which was agreed upon by the European Commission and the German Federal Department of Justice.

With the introduction of the euro effective January 1, 1999 we have converted our internal and external reporting to euro and, therefore, restated the consolidated financial statements and the consolidated business review report including the figures of fiscal 1997 to euro using the exchange rate as of January 1, 1999 (see Note 1 to the consolidated financial statements). The Form 20-F will also be presented in euro with the consent of the United States Securities and Exchange Commission (SEC).

The consolidated financial statements and the consolidated business review report as of December 31, 1998 prepared in accordance with § 292 a HGB (German Commercial Code) and filed with the commercial register in Stuttgart under the No. HRB 19 360 will be provided to shareholders upon request.

STATEMENT OF THE BOARD OF MANAGEMENT

The Board of Management of DaimlerChrysler AG is responsible for preparing the accompanying consolidated financial statements.

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.

As part of the merger, the existing internal control systems will be combined into a risk management system that meets the requirements of the German Business Monitoring and Transparency Act (KonTraG). This will enable the Board of Management to identify potential risks at an early stage and to initiate 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.

Robert J. Eaton | Jürgen E. Schrempp | Manfred Gentz

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheets of DaimlerChrysler AG and subsidiaries (“DaimlerChrysler”) as of December 31, 1998 and 1997, 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, 1998. These consolidated financial statements are the responsibility of DaimlerChrysler's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of DaimlerChrysler Corporation and consolidated subsidiaries (“DaimlerChrysler Corporation”), a wholly-owned subsidiary of DaimlerChrysler AG, which statements reflect total assets constituting 43 percent and 44 percent at December 31, 1998 and 1997, and total revenues constituting 45 percent, 46 percent and 47 percent for the years ended December 31, 1998, 1997 and 1996, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for DaimlerChrysler Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with German and United States generally accepted auditing standards. 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 and the report of the other auditors, provide a reasonable basis for our opinion.

DaimlerChrysler 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 DaimlerChrysler's use of the proportionate method of consolidation as supplemented by the disclosures in Note 3.

In our opinion, based on our audits and the report of the other auditors, except for 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 DaimlerChrysler as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with United States generally accepted accounting principles.

Frankfurt am Main
March 15, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zielke
Wirtschaftsprüfer

Schmid
Wirtschaftsprüfer

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	Note	1998 (Note 1) $	1998 €	1997 €	1996 €	1998 €	1997 €	1996 €
		Consolidated Year ended December 31,				Financial Services Year ended December 31,		
Revenues	30	154,615	131,782	117,572	101,415	7,908	6,545	5,548
Cost of sales	5	(121,692)	(103,721)	(92,953)	(78,995)	(6,157)	(5,075)	(4,347)
Gross margin		32,923	28,061	24,619	22,420	1,751	1,470	1,201
Selling, administrative and other expenses	5	(19,041)	(16,229)	(15,621)	(13,902)	(921)	(760)	(652)
Research and development		(5,833)	(4,971)	(4,408)	(4,081)	–	–	–
Other income	6	1,425	1,215	957	848	106	82	58
Merger costs	1	(803)	(685)	–	–	–	–	–
Income before financial income and income taxes		8,671	7,391	5,547	5,285	936	792	607
Financial income, net	7	896	763	633	408	23	4	–
Income before income taxes and extraordinary item		9,567	8,154	6,180	5,693	959	796	607
Tax benefit relating to a special distribution				1,487[1]				
Income taxes				(1,005)[2]				
Total income taxes	8	(3,607)	(3,075)	482	(1,547)	(361)	(307)	(234)
Minority interest		(153)	(130)	(115)	23	(2)	(1)	(2)
Income before extraordinary item		5,807	4,949	6,547	4,169	596	488	371
Extraordinary item: loss on early extinguishment of debt, net of taxes	9	(151)	(129)	–	(147)	–	–	–
Net income		5,656	4,820	6,547[3]	4,022	596	488	371
Earnings per share	31							
Basic earnings per share								
Income before extraordinary item		6.05	5.16	6.90	4.24	–	–	–
Extraordinary item		(0.16)	(0.13)	–	(0.15)	–	–	–
Net income		5.89	5.03	6.90[3]	4.09	–	–	–
Diluted earnings per share								
Income before extraordinary item		5.91	5.04	6.78	4.20	–	–	–
Extraordinary item		(0.16)	(0.13)	–	(0.15)	–	–	–
Net income		5.75	4.91	6.78[3]	4.05	–	–	–

[1]) Reflects the tax benefit relating to a special distribution (see Note 20).

[2]) Includes non-recurring tax benefits of € 1,003 relating to the decrease in valuation allowance as of December 31, 1997, applied to the domestic operations that file a combined tax return.

[3]) Excluding non-recurring tax benefits, 1997 net income would have been € 4,057 and basic and diluted earnings per share would have been € 4.28 and € 4.21, respectively.

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

All balances have been restated from Deutsche Marks into Euros using the exchange rate as of January 1, 1999.

CONSOLIDATED BALANCE SHEETS

(in millions)	Note	1998 (Note 1) $	Consolidated At December 31, 1998 €	1997 €	Financial Services At December 31, 1998 €	1997 €
Assets						
Intangible assets	10	3,004	2,561	2,422	104	51
Property, plant and equipment, net	10	34,649	29,532	28,558	53	39
Investments and long-term financial assets	16	3,344	2,851	2,397	632	631
Equipment on operating leases, net	11	17,203	14,662	11,092	12,001	9,571
Fixed assets		58,200	49,606	44,469	12,790	10,292
Inventories	12	13,840	11,796	10,897	654	505
Trade receivables	13	8,922	7,605	7,265	654	761
Receivables from financial services	14	31,054	26,468	21,717	26,460	21,658
Other receivables	15	12,642	10,775	11,376[1]	5,936	6,214
Securities	16	14,267	12,160	10,180	597	418
Cash and cash equivalents	17	7,731	6,589	6,809	681	702
Current assets		88,456	75,393	68,244	34,982	30,258
Deferred taxes	8	5,885	5,016	5,688	17	14
Prepaid expenses	19	7,197	6,134	6,430	133	71
Total assets (thereof short-term 1998: € 57,953; 1997: € 54,370)		159,738	136,149	124,831	47,922	40,635
Liabilities and stockholders' equity						
Capital stock		3,005	2,561	2,391		
Additional paid-in capital		8,534	7,274	2,958		
Retained earnings		24,091	20,533	21,892[1]		
Accumulated other comprehensive income		(1)	(1)	1,143		
Treasury stock		–	–	(424)		
Preferred stock		–	–	.		
Stockholders' equity	20	35,629	30,367	27,960	4,639	4,379
Minority interests		810	691	782	17	28
Accrued liabilities	22	40,629	34,629	35,787	412	508
Financial liabilities	23	47,436	40,430	34,375	36,810	31,381
Trade liabilities	24	15,074	12,848	12,026	242	90
Other liabilities	25	10,851	9,249	7,912	2,366	1,610
Liabilities		73,361	62,527	54,313	39,418	33,081
Deferred taxes	8	4,886	4,165	2,502	2,665	2,366
Deferred income	26	4,423	3,770	3,487	771	273
Total liabilities (thereof short-term 1998: € 58,181; 1997: € 50,918)		124,109	105,782	96,871	43,283	36,256
Total liabilities and stockholders' equity		159,738	136,149	124,831	47,922	40,635

[1]) Includes a tax receivable/tax benefit of approximately € 1.49 billion relating to the special distribution (see Note 20).

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

All balances have been restated from Deutsche Marks into Euros using the exchange rate as of January 1, 1999.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	1998 (Note 1) $	1998 €	Consolidated Year ended December 31, 1997 €	1996 €	1998 €	Financial Services Year ended December 31, 1997 €	1996 €
Net income	5,656	4,820	6,547	4,022	596	488	371
Income (loss) applicable to minority interests	153	130	115	(22)	2	1	2
Adjustments to reconcile net income to net cash provided by operating activities:							
Tax benefit relating to a special distribution	–	–	(1,487)	–	–	–	–
Gain on disposals of businesses	(347)	(296)	(569)	(182)	–	–	7
Depreciation and amortization of equipment on operating leases	2,314	1,972	1,456	1,159	1,784	1,429	1,215
Depreciation and amortization of fixed assets	6,287	5,359	4,847	4,233	38	27	23
Change in deferred taxes	2,298	1,959	(706)	112	399	288	83
Extraordinary item: loss on early extinguishment of debt	151	129	–	147	–	–	–
Change in financial instruments	(224)	(191)	146	200	–	–	2
(Gain) loss on disposal of fixed assets/securities	(432)	(368)	(204)	(65)	(51)	13	–
Change in trading securities	294	251	(387)	(171)	–	–	–
Change in accrued liabilities	1,665	1,419	840	1,416	44	3	21
Change in current assets and liabilities:							
– inventories, net	(1,145)	(976)	(744)	(427)	64	(140)	(49)
– trade receivables	(807)	(688)	(555)	53	124	23	4
– trade liabilities	2,144	1,827	1,709	231	159	1	(30)
– other assets and liabilities	1,564	1,334	1,329	(750)	1,107	1,187	(369)
Cash provided by operating activities	19,571	16,681	12,337	9,956	4,266	3,320	1,280
Purchases of fixed assets:							
– Increase in equipment on operating leases	(9,733)	(8,296)	(5,914)	(4,045)	(7,238)	(4,889)	(3,458)
– Purchases of property, plant and equipment	(9,568)	(8,155)	(8,051)	(6,721)	(37)	(24)	(12)
– Purchases of other fixed assets	(358)	(305)	(264)	(215)	(60)	(38)	(13)
Proceeds from disposals of equipment on operating leases	3,466	2,954	2,632	1,730	2,270	1,905	1,794
Proceeds from disposals of fixed assets	604	515	576	660	15	21	6
Payments for acquisitions of businesses	(1,006)	(857)	(607)	(236)	(43)	(64)	(83)
Proceeds from disposals of businesses	804	685	1,336	1,105	3	–	283
Additions to receivables from financial services	(95,264)	(81,196)	(70,154)	(56,880)	(81,259)	(71,221)	(58,126)
Repayments of receivables from financial services:							
– Finance receivables collected	39,638	33,784	22,257	15,892	33,784	23,114	17,042
– Proceeds from sales of finance receivables	48,046	40,950	44,336	39,474	40,950	44,336	39,474
Acquisitions of securities (other than trading)	(5,418)	(4,617)	(5,190)	(4,024)	(2,602)	(1,701)	(1,475)
Proceeds from sales of securities (other than trading)	3,208	2,734	3,828	4,649	2,487	1,763	2,382
Change in other cash	(1,926)	(1,641)	685	(134)	(187)	(739)	(656)
Cash used for investing activities	(27,507)	(23,445)	(14,530)	(8,745)	(11,917)	(7,537)	(2,842)
Change in commercial paper borrowings and short-term financial liabilities	2,937	2,503	1,781	2,828	3,639	1,679	1,389
Additions to long-term financial liabilities	11,135	9,491	9,057	2,440	9,169	7,037	3,174
Repayment of financial liabilities	(4,841)	(4,126)	(4,612)	(5,228)	(5,073)	(3,844)	(3,035)
Dividends paid (Financial Services: incl. profit transferred from subsidiaries)	(7,572)	(6,454)	(1,267)	(746)	(589)	(491)	(479)
Proceeds from issuance of capital stock	4,782	4,076	231	231	515	176	248
Purchase of treasury stock	(198)	(169)	(1,888)	(1,570)	–	–	–
Proceeds from special distribution tax refund	1,744	1,487	–	–	–	–	–
Cash provided by (used for) financing activities	7,987	6,808	3,302	(2,045)	7,661	4,557	1,297
Effect of foreign exchange rate changes on cash and cash equivalents up to 3 months	(466)	(397)	646	351	(28)	36	24
Net increase (decrease) in cash and cash equivalents up to 3 months	(415)	(353)	1,755	(483)	(18)	376	(241)
Cash and cash equivalents (up to 3 months): at beginning of period	7,783	6,634	4,879	5,362	699	323	564
at end of period	7,368	6,281	6,634	4,879	681	699	323

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

All balances have been restated from Deutsche Marks into Euros using the exchange rate as of January 1, 1999.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

				Accumulated other comprehensive income					
(in millions of €)	*Capital stock*	*Additional paid-in capital*	*Retained earnings*	*Cumulative translation adjustment*	*Available-for-sale securities*	*Minimum pension liability*	*Treasury stock*	*Preferred stock*	*Total*
Balance at January 1, 1996	2,525	5,596	13,335	(2,006)	74	(36)	–	.	19,488
Net income	–	–	4,022	–	–	–	–	–	4,022
Other comprehensive income	–	–	–	1,034	38	16	–	–	1,088
Total comprehensive income									5,110
Issuance of capital stock	5	68	–	–	–	–	–	–	73
Purchase and retirement of capital stock	(93)	(1,477)	–	–	–	–	(53)	–	(1,623)
Dividends	–	–	(808)	–	–	–	–	–	(808)
Other	7	23	32	–	–	–	53	.	115
Balance at December 31, 1996	2,444	4,210	16,581	(972)	112	(20)	–	.	22,355
Net income	–	–	6,547	–	–	–	–	–	6,547
Other comprehensive income	–	–	–	1,865	157	1	–	–	2,023
Total comprehensive income									8,570
Issuance of capital stock	4	85	–	–	–	–	–	–	89
Purchase and retirement of capital stock	(59)	(1,430)	–	–	–	–	(462)	–	(1,951)
Dividends	–	–	(1,276)	–	–	–	–	–	(1,276)
Other	2	93	40	–	–	–	38	.	173
Balance at December 31, 1997	2,391	2,958	21,892	893	269	(19)	(424)	.	27,960
Net income	–	–	4,820	–	–	–	–	–	4,820
Other comprehensive income (loss)	–	–	–	(1,402)	259	(1)	–	–	(1,144)
Total comprehensive income									3,676
Issuance of capital stock	163	3,913	–	–	–	–	–	–	4,076
Purchase and retirement of capital stock	–	–	–	–	–	–	(169)	–	(169)
Re-issuance of treasury stock	–	538	–	–	–	–	482	–	1,020
Dividends	–	–	(1,086)	–	–	–	–	–	(1,086)
Special Distribution	–	–	(5,284)	–	–	–	–	–	(5,284)
Other	7	(135)	191	–	–	–	111	.	174
Balance at December 31, 1998	2,561	7,274	20,533	(509)	528	(20)	–	–	30,367

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

All balances have been restated from Deutsche Marks into Euros using the exchange rate as of January 1, 1999.

CONSOLIDATED FIXED ASSETS SCHEDULE

(in millions of €)	*Acquisition or Manufacturing Costs* Balance at January 1, 1998	Currency change	Acquisitions/ disposals of businesses	Additions	Reclassi-fications	Disposals	Balance at December 31, 1998
Other intangible assets	654	(8)	10	216	19	154	737
Goodwill	3,253	(150)	148	329	–	16	3,564
Intangible assets	3,907	(158)	158	545	19	170	4,301
Land, leasehold improvements and buildings including buildings on land owned by others	16,918	(497)	69	851	1,170	493	18,018
Technical equipment and machinery	26,376	(972)	(471)	2,761	268	1,717	26,245
Other equipment, factory and office equipment	16,285	(649)	2	2,922	183	1,608	17,135
Advance payments relating to plant and equipment and construction in progress	5,016	(263)	(44)	1,681	(1,640)	211	4,539
Property, plant and equipment	64,595	(2,381)	(444)	8,215	(19)	4,029	65,937
Investments in affiliated companies	414	(3)	(16)	407	2	86	718
Loans to associated and affiliated companies	5	(2)	8	18	1	1	29
Investments in associated companies	217	(10)	8	91	93	41	358
Investments in related companies	1,249	(50)	(1)	154	(94)	80	1,178
Loans to associated and related companies	52	–	(1)	22	(1)	1	71
Long-term securities	523	(.)	–	159	–	6	676
Other loans	374	(3)	(196)	49	(1)	28	195
Investments and long-term financial assets	2,834	(68)	(198)	900	–	243	3,225
Equipment on operating leases[2)]	13,846	(842)	31	10,245	–	5,151	18,129

[1]) Currency translation changes with period end rates.

[2]) Excluding initial direct costs. See Note 11.

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

All balances have been restated from Deutsche Marks into Euros using the exchange rate as of January 1, 1999.

Depreciation/Amortization							Book Value[1)]	
Balance at January 1, **1998**	Currency change	Acquisitions/ disposals of businesses	Additions	Reclassi-fications	Disposals	Balance at December 31, **1998**	Balance at December 31, **1998**	Balance at December 31, **1997**
341	**(6)**	**2**	**137**	**–**	**88**	**386**	**351**	**313**
1,144	**(6)**	**–**	**227**	**–**	**11**	**1,354**	**2,210**	**2,109**
1,485	**(12)**	**2**	**364**	**–**	**99**	**1,740**	**2,561**	**2,422**
8,245	**(174)**	**21**	**561**	**6**	**237**	**8,422**	**9,596**	**8,673**
16,845	**(531)**	**(291)**	**2,185**	**–**	**1,449**	**16,759**	**9,486**	**9,531**
10,945	**(440)**	**25**	**2,191**	**(5)**	**1,492**	**11,224**	**5,911**	**5,340**
2	**–**	**–**	**–**	**(2)**	**–**	**–**	**4,539**	**5,014**
36,037	**(1,145)**	**(245)**	**4,937**	**(1)**	**3,178**	**36,405**	**29,532**	**28,558**
83	**(2)**	**–**	**32**	**–**	**21**	**92**	**626**	**331**
–	**–**	**4**	**–**	**–**	**–**	**4**	**25**	**5**
–	**–**	**–**	**10**	**–**	**2**	**8**	**350**	**217**
254	**(8)**	**–**	**13**	**1**	**46**	**214**	**964**	**995**
37	**–**	**–**	**1**	**–**	**–**	**38**	**33**	**15**
3	**(1)**	**.**	**–**	**–**	**1**	**1**	**675**	**520**
60	**–**	**(41)**	**2**	**(1)**	**3**	**17**	**178**	**314**
437	**(11)**	**37**	**58**	**–**	**73**	**374**	**2,851**	**2,397**
2,832	**(118)**	**–**	**1,972**	**1**	**1,124**	**3,563**	**14,566**	**11,014**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

1. THE COMPANY AND THE MERGER

DaimlerChrysler AG ("DaimlerChrysler" or the "Group") was formed through the merger of Daimler-Benz Aktiengesellschaft ("Daimler-Benz") and Chrysler Corporation ("Chrysler") in November 1998 ("Merger"). The consolidated financial statements of DaimlerChrysler 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 3). DaimlerChrysler has previously prepared and reported its consolidated financial statements in Deutsche Marks ("DM"). With the introduction of the Euro ("€") on January 1, 1999, DaimlerChrysler has elected to present the accompanying consolidated financial statements in Euro. Accordingly, the Deutsche Mark consolidated financial statements for each period presented have been restated into Euro using the Deutsche Mark/Euro exchange rate as of January 1, 1999 of € 1 = DM 1.95583. DaimlerChrysler`s restated Euro financial statements depict the same trends as would have been presented if it had continued to present its consolidated financial statements in Deutsche Marks. The Group's consolidated financial statements will, however, not be comparable to the Euro financial statements of other companies that previously reported their financial information in a currency other than Deutsche Marks. All amounts herein are shown in millions of Euros ("€") and for the year 1998 are also presented in U.S. dollars ("$"), the latter being unaudited and presented solely for the convenience of the reader at the rate of DM 1.6670 = $1, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 1998.

Pursuant to the amended and restated business combination agreement dated May 7, 1998, 1.005 Ordinary Shares, no par value ("DaimlerChrysler Ordinary Share"), of DaimlerChrysler were issued for each outstanding Ordinary Share of Daimler-Benz and .6235 DaimlerChrysler Ordinary Shares were issued for each outstanding share of Chrysler common stock, stock options and performance shares. DaimlerChrysler issued 1,001.7 million Ordinary Shares in connection with these transactions.

The Merger was accounted for as a pooling of interests and accordingly, the historical results of Daimler-Benz and Chrysler have been restated as if the companies had been combined for all periods presented. Adjustments were made to the restated consolidated financial statements to record the tax effects of anticipated earnings distributions from the Group's foreign subsidiaries. Certain reclassifications were made to Chrysler's financial statements to conform them with DaimlerChrysler's presentation. Prior to the Merger, there were no material transactions between Daimler-Benz and Chrysler.

The following information reconciles total revenues, income before taxes and extraordinary item and net income for the separate companies with amounts presented in the accompanying consolidated statements of income for the years ended December 31, 1997 and 1996, and for the nine months ended September 30, 1998 (the operating period of Daimler-Benz and Chrysler prior to the Merger).

	Nine months ended September 30, 1998 (unaudited)	*Year ended December 31,* 1997	1996
Revenues:			
Daimler-Benz	**52,610**	63,426	54,371
Chrysler	**44,364**	54,146	47,044
Total	**96,974**	117,572	101,415
Income before income taxes and extraordinary item:			
Daimler-Benz	**3,251**	2,173	1,002
Chrysler	**3,988**	4,059	4,710
Restatement for exchange rate effects of withholding taxes	**26**	(52)	(19)
Total	**7,265**	6,180	5,693
Net income:			
Daimler-Benz	**1,678**	4,112	1,412
Chrysler	**2,507**	2,487	2,715
Restatement for withholding taxes	**26**	(52)	(105)
Total	**4,211**	6,547	4,022

In connection with the Merger, € 685 of merger costs (€ 401 after tax) were incurred and have been charged to expense in 1998. These costs consisted primarily of fees for investment bankers, attorneys, accountants, financial printing, accelerated management compensation and other related charges.

Commercial practices with respect to the products manufactured by DaimlerChrysler 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation — All material companies in which Daimler-Chrysler has legal or effective control are consolidated. Significant investments in which DaimlerChrysler has a 20% to 50% ownership ("associated companies") are generally accounted for using the equity method. For certain investments in joint ventures, DaimlerChrysler uses the proportionate method of consolidation (see Note 3). Other investments are accounted for at cost ("affiliated companies").

Except for the Merger, the Group has accounted 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 — The assets and liabilities of foreign subsidiaries where the functional currency is other than the DM 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:

		Exchange rate[1] at December, 31		*Annual average exchange rate*		
		1998	1997	1998	1997	1996
Currency:		DM	DM	DM	DM	DM
Brazil	1 BRL	1.37	1.61	1.51	1.61	1.50
France	1 FRF	0.30	0.30	0.30	0.30	0.29
Great Britain	1 GBP	2.80	2.98	2.91	2.84	2.35
Italy	1000 ITL	1.01	1.02	1.01	1.02	0.98
Japan	100 JPY	1.45	1.38	1.35	1.44	1.38
Spain	100 ESP	1.18	1.18	1.18	1.18	1.18
USA	1 USD	1.67	1.79	1.76	1.73	1.50

[1]) Official rates fixed at the Frankfurt Currency Exchange.

Revenue Recognition — Revenue is recognized when title passes or services are rendered net of discounts, sales incentives, customer bonuses and rebates granted. Sales under which the Company conditionally guarantees the minimum resale value of the product are accounted for as operating leases with the related revenues and costs deferred at the time of title passage. 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 on a straight-line basis.

The Group sells significant amounts of automotive retail and wholesale receivables in transactions subject to limited credit risk. The Group generally sells its receivables to a trust and remains as servicer, for which it is paid a servicing fee. Servicing fees are earned on a level-yield basis over the remaining term of the related sold receivables. In a subordinated capacity, the Group retains residual cash flows, a limited interest in principal balances of the sold receivables and certain cash deposits provided as credit enhancements for investors. Gains and losses from the sales of finance receivables are recognized in the period in which such sales occur. In determining the gain or loss for each qualifying sale of finance receivables, the investment in the sold receivable pool is allocated between the portion sold and the portion retained based upon their relative fair values.

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 related sale is recorded. Research and development costs are expensed as incurred.

Earnings Per Share — Basic earnings per share is generally calculated by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share reflects the potential dilution that would occur if all securities and other contracts to issue Ordinary Shares were exercised or converted (see Note 31). Net income represents the earnings of the Group after minority interests. Basic and diluted earnings per Ordinary Share have been restated to reflect the conversion of Daimler-Benz and Chrysler shares into DaimlerChrysler Ordinary Shares (see Note 1) and the dilutive effect resulting from the discount to market value at which the Daimler-Benz Ordinary Shares were sold in the rights offering (see Note 20).

Intangible Assets — Purchased intangible assets are valued at acquisition cost and are amortized over their respective useful lives (3 to 40 years). Goodwill derived from acquisitions is capitalized and amortized over 3 to 40 years. The Group periodically assesses the recoverability of its goodwill based upon projected future cash flows. Intangible assets also include intangible pension assets.

Property, Plant and Equipment — Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognized either using the declining balance method until the straight-line method yields larger expenses or the straight-line method. Special tooling costs are capitalized and amortized over the years that a model using that tooling is expected to be produced and within each year based on the units produced. 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 30 years; and other equipment, factory and office equipment - 2 to 15 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 leases, where the Group is lessor, is valued at acquisition cost and generally depreciated over the assets' useful lives, generally three to seven years, using the straight-line method.

Current Assets — Current assets represent the Group's inventories, receivables, securities and cash, including amounts to be realized in excess of one year. In the accompanying footnotes, the portion of assets and liabilities to be realized and settled in excess of one year have been disclosed.

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 accumulated other comprehensive income, 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. 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 — DaimlerChrysler uses derivative financial instruments for hedging purposes. Financial instruments, including derivatives (especially currency futures and currency options, security options, interest rate swaps 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 29 d).

Accrued Liabilities — The valuation of pension liabilities and postretirement benefit liabilities is based upon the projected unit credit method in accordance with Statement of Financial Accounting Standards ("SFAS") 87, "Employers' Accounting for Pensions" and SFAS 106. 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 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.

New Accounting Pronouncements — On January 1, 1998, the Group adopted SFAS 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income, foreign currency translation adjustments, net unrealized gains (losses) on available-for-sale securities and additional minimum pension liability provisions and is presented in the consolidated statements of changes in stockholders´ equity. The Standard requires only additional disclosure in the consolidated financial statements and does not affect the Company´s financial position or results of operations. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

Effective January 1, 1998, the Group adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." Segment data for 1997 and 1996 has been restated to conform with the new requirements. See Note 30.

On January 1, 1998, the Group adopted SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132 revises employers´ disclosures about pensions and other postretirement benefit plans. SFAS 132 does not change the method of accounting for such plans. See Note 22a.

Effective January 1, 1998, DaimlerChrysler adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP requires that entities capitalize certain internal-use software costs once certain criteria are met. Adoption of the standard did not have a material effect on DaimlerChrysler´s consolidated financial statements.

In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." DaimlerChrysler is required to adopt the provisions of SOP 98-5 effective January 1, 1999. SOP 98-5 provides, among other things, guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. Adoption of this accounting pronouncement is not anticipated to have a material effect on DaimlerChrysler´s consolidated financial statements.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This Standard requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. This Standard is effective for fiscal years beginning after June 15, 1999. DaimlerChrysler plans to adopt this accounting pronouncement by January 1, 2000.

3. SCOPE OF CONSOLIDATION

Scope of Consolidation — DaimlerChrysler comprises 481 foreign and domestic subsidiaries (1997: 494) and 82 joint ventures (1997: 92); the latter are generally accounted for on a pro rata basis. 27 subsidiaries are accounted for in the consolidated financial statements using the equity method of accounting. During 1998, 54 subsidiaries and 6 joint ventures were included in the consolidated financial statements for the first time. A total of 67 subsidiaries and 16 joint ventures were no longer included in 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 313 subsidiaries (1997: 285) 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 for all years presented on consolidated assets, revenues and net income of DaimlerChrysler was less than 2%.

In addition, 7 (1997: 7) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The consolidated financial statements include 127 associated companies. At December 31, 1998, 17 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 – The Group accounts for its investment in Adtranz, a rail systems joint venture between the Group and Asea Brown Boveri Ltd. ("ABB"), including its 65 (1997: 63) subsidiaries, using the proportionate method of consolidation. Accordingly, DaimlerChrysler 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 represents a benchmark treatment encouraged by the Standards of the International Accounting Standards Committee, better illustrates its consolidated financial position, results of operations and cash flows to the readers of the Group's consolidated financial statements.

Under U.S. GAAP, DaimlerChrysler's 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-Chrysler. Under the equity method of accounting, Daimler-Chrysler's 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 impacted on the Group's reported cash flows only to the extent of the investing cash outflow in 1998 of € 159 resulting from a capital contribution by DaimlerChrysler. For purposes of its United States financial reporting obligation, DaimlerChrysler has requested and received permission from the United States Securities and Exchange Commission 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-Chrysler 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, 1998	1997
Fixed assets[1]	728	808
Current assets	842	941
Total assets	1,570	1,749
Stockholders' equity	385	712
Minority interests	7	6
Accrued liabilities	542	496
Liabilities	636	535
Total liabilities and stockholders' equity	1,570	1,749

[1]) Includes net goodwill resulting from the formation of Adtranz of € 348 and € 435 in 1998 and 1997, respectively.

Statement of income information	Year ended December 31, 1998	1997	1996
Revenues	1,658	1,631	1,450
Operating loss[1]	(322)	(222)	(69)
Net loss	(316)	(154)	(49)

[1]) The operating losses for 1998 and 1997 include impairment charges on goodwill of € 64 and € 61, respectively.

Cash flow information	1998	1997	1996
	Year ended December 31,		
Cash flows from:			
Operating activities	(130)	72	(231)
Investing activities	(84)	(12)	64
Financing activities	161	(50)	41
Effect of foreign exchange on cash	(2)	.	4
Change in cash (up to 3 months)	(55)	10	(122)
Cash (up to 3 months) at beginning of period	155	145	268
Cash (up to 3 months) at end of period	100	155	146

Cash up to 3 months includes € 30 (1997: € 51; 1996: € 59) held by DaimlerChrysler AG in connection with internal cash concentration procedures.

The Group and ABB entered into an option agreement, in connection with the formation of Adtranz, 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.

In January 1999, DaimlerChrysler agreed to acquire ABB's 50% interest in Adtranz for $472. The acquisition cancels the call and put option discussed above. The transaction is expected to be completed in the second quarter of 1999. Consummation of the merger is subject to various conditions, including among others, approval of certain governmental authorities.

4. ACQUISITIONS AND DISPOSITIONS

In March 1998, the Group's semiconductor business was sold to an American company, Vishay Intertechnology, Inc., for a gain of € 143 (before taxes). Moreover, during 1998 the Group sold further interests, including the sale of 30% of its interests in LFK-Lenkflugkörpersysteme GmbH and 100% of its interests in CMS, Inc. and two real-estate-project-companies for a total gain of approximately € 153.

In January 1997, DaimlerChrysler sold its interests in AEG Electrocom GmbH and AEG ElectroCom International, Inc. (sorting and recognition systems) to Siemens AG resulting in a gain of € 110 (before taxes).

In July 1997, debis AG, a subsidiary of DaimlerChrysler, terminated its strategic relationship with Cap Gemini Sogeti S.A. through the sale of its 24.4% interest resulting in a gain of € 420.

During December 1997, DaimlerChrysler completed an initial public offering ("IPO") of its common stock in Dollar Thrifty Automotive Group, Inc. ("DTAG"), formerly Pentastar Transportation Group, Inc., for net proceeds of € 343 ($387). The IPO of the common stock interest resulted in a pretax and after-tax gain of € 65 ($73). The gain was deferred and will be recognized over the remaining term of the vehicle supply agreements with DTAG, which end in 2001. The tax effect on this transaction reflects the difference between the book and tax basis of the Group's stock interest in DTAG for which deferred taxes were not provided, in accordance with SFAS 109, "Accounting for Income Taxes." In addition, the 1997 earnings include the recognition of € 86 ($97) (€ 53 or $60 after taxes) of previously deferred profits from the sale of vehicles from DaimlerChrysler to DTAG.

In 1996, the Group committed to a plan of disposal for Thrifty, a subsidiary of DTAG, and recognized a € 50 ($65) pretax loss (€ 77 or $100 after taxes) to write down Thrifty's carrying value to estimated fair value less costs to sell. The after tax loss includes the effect of not being able to claim a tax deduction for the capital loss on DaimlerChrysler's investment in Thrifty.

In January 1996, DaimlerChrysler announced that 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 for discontinuing such investment.

During 1996, the Group realized gains of approximately € 51 from the proceeds of sales of certain inventories in excess of the inventories' previously written-down value.

In June 1996, the shareholders of AEG approved the merger of AEG with DaimlerChrysler 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 € 153.

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 € 222, 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 1996, the Group sold Electrospace Systems, Inc. ("ESI") and Chrysler Technologies Airborne Systems, Inc. ("CTAS") for net proceeds of € 366 ($476). ESI and CTAS were engaged principally in the manufacture of defense electronics and aircraft modification, respectively, and represented substantially all of the operations of Chrysler Technologies Corporation ("CTC"), a wholly owned subsidiary of the Group. The sale resulted in a pretax gain of € 78 ($101) (€ 67 or $87 after taxes). In 1996, the Group signed an agreement to sell Pentastar Electronics, Inc. ("PEI") for net proceeds of € 13 ($17), which resulted in the recognition of a pretax loss of € 59 ($77) (€ 39 or $51 after taxes) to write down PEI's carrying value to estimated fair value less costs to sell. PEI represented the remaining operations of CTC. The sale of PEI was completed on January 10, 1997.

NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

5. FUNCTIONAL COSTS AND OTHER EXPENSES

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

	Year ended December 31,		
	1998	1997	1996
Selling expenses	10,100	9,663	8,383
Administration expenses	5,217	4,709	4,125
Goodwill amortization and writedowns	227	210	135
Other expenses	685	1,039	1,259
	16,229	15,621	13,902

Expenses amounting to € 229 and € 369 related to the repayment of development cost subsidies were recorded under other expenses in 1998 and 1997, respectively (see Note 28).

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

	Year ended December 31, 1998	1997	1996
Wages and salaries	**19,982**	18,656	17,143
Social levies	**2,990**	2,817	2,527
Net periodic pension cost (see Note 22a)	**1,126**	1,076	1,228
Net periodic postretirement benefit cost (see Note 22a)	**866**	755	673
Other expenses for pensions and retirements	**69**	66	77
	25,033	23,370	21,648

Number of employees (annual average):

	Year ended December 31, 1998	1997	1996
Hourly employees	**268,764**	261,426	262,048
Salaried employees	**152,415**	147,882	146,006
Trainees/apprentices	**12,760**	12,353	11,704
	433,939	421,661	419,758

In 1998, 36,024 people (1997: 34,448 people; 1996: 34,655 people) were employed in joint venture companies.

In 1998, the total remuneration paid by Group companies to the members of the Board of Management of DaimlerChrysler AG amounted to € 41, and the remuneration paid to the members of the Supervisory Board of DaimlerChrysler AG totaled € 2. Additionally, members of the Board of Management subscribed for convertible bonds at a notional amount of € 0.6 within the 1998 Stock Option Plan. Options totalling 1,755,000 and 12,000 to purchase Chrysler common stock were granted to members of the Board of Management and the Supervisory Board, respectively (see Note 21).

To determine the fair value of the option rights, option pricing models may be used. As such, the resulting fair values can fluctuate significantly based upon the underlying assumptions. Accordingly, uniform and consistent values are generally not available. See Note 21 with respect to 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."

As of December 31, 1998, no advances and loans existed to members of the Board of Management of DaimlerChrysler AG.

6. OTHER INCOME

Other income includes gains on sales of property, plant and equipment (€ 99, € 95 and € 130 in 1998, 1997 and 1996, respectively), gains on sales of companies (€ 389, € 117 and € 197 in 1998, 1997 and 1996, respectively), rental income (€ 138, € 87 and € 52 in 1998, 1997 and 1996, respectively), foreign currency exchange gains (€ 116, € 109 and € 21 in 1998, 1997 and 1996, respectively), and reductions in certain accruals (€ 199, € 154 and € 114 in 1998, 1997 and 1996, respectively).

7. FINANCIAL INCOME, NET

	Year ended December 31, 1998	1997	1996
Income (loss) from investments of which from affiliated companies € (20) (1997: € 17; 1996: € 20)	(111)	66	217
Gains (losses), net from disposals of investments and shares in affiliated and associated companies	37	459	(9)
Write-down of investments and shares in affiliated companies	(55)	(76)	(55)
Income (loss) from companies included at equity	59	36	(68)
Income (loss) from investments, net	(70)	485	85
Other interest and similiar income of which from affiliated companies € 13 (1997: € 10; 1996: € 12)	1,409	1,595	1,161
Interest and similiar expenses	(702)	(640)	(581)
Interest income, net	707	955	580
Income from securities and long-term receivables	17	16	9
Gains from sales of securities	132	85	57
Write-down of securities and long-term receivables	(10)	(10)	(3)
Realized and unrealized gains (losses) on financial instruments	145	(794)	(390)
Other, net	(158)	(104)	70
Other financial income (loss), net	126	(807)	(257)
	763	633	408

The Group capitalized interest expenses related to qualifying construction projects of € 186 (1997: € 207; 1996: € 145).

8. INCOME TAXES

Income before income taxes, extraordinary items and minority interests amounted to € 8,154 (1997: € 6,180; 1996: € 5,693), of which € 2,229 was generated by the Group's operations in Germany (1997: € 1,450; 1996: € 594).

The provision (benefit) for income taxes consists of the following:

	Year ended December 31, 1998	1997	1996
Current taxes			
Germany	(267)	(1,472)	207
Foreign	1,383	1,695	1,228
Deferred taxes			
Germany	967	(910)	(654)
Foreign	992	205	766
	3,075	(482)	1,547

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 1998, retained corporate income is initially subject to a federal corporate tax of 45% plus a solidarity surcharge of 5.5% (1997 and 1996: 7.5%) on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 47.475% (1997 and 1996: 48.375%). Upon distribution of certain retained earnings to stockholders, the corporate income tax rate on the earnings is adjusted to 30%, plus a solidarity surcharge of 5.5% (1997 and 1996: 7.5%) on the distribution corporate tax, for a total of 31.65% (1997 and 1996: 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.

For German companies, the deferred taxes for 1998 and 1997 are calculated using an effective corporate income tax rate of 47.475% plus the after federal tax benefit rate for trade tax of 8.525%. The effect of the tax rate reduction on year-end 1997 deferred tax balances is reflected in the reconciliation of 1997 presented below.

A reconciliation of income taxes determined using the German corporate tax rate of 47.475% plus the after federal tax benefit rate for trade taxes of 8.525% for a combined statutory rate of 56% in 1998 (1997 and 1996: 57%) is as follows:

	Year ended December 31,		
	1998	**1997**	**1996**
Expected provision for income taxes	**4,566**	**3,522**	**3,245**
Change in tax rate for deferred taxes, domestic	**–**	**68**	**–**
Credit for dividend distributions	**(515)**	**(1,624)**	**(85)**
Foreign tax rate differential	**(985)**	**(797)**	**(993)**
Release of valuation allowances on Group's German deferred tax assets as of December 31, 1997	**–**	**(1,003)**	**–**
Changes in valuation allowances on German deferred tax assets	**112**	**(465)**	**(533)**
Write-downs of investments, different for tax purposes	**(18)**	**(240)**	**(106)**
Amortization of non-tax-deductible goodwill	**78**	**55**	**29**
Other	**(163)**	**2**	**(10)**
Actual provision (benefit) for income taxes	**3,075**	**(482)**	**1,547**

The 1998 income tax credit from dividend distributions amounted to € 515 and reflected mainly the tax benefit from the dividend distribution of € 2.35 per Ordinary Share/ADS.

The 1997 income tax credit from dividend distributions amounted to € 1,624 and reflected primarily a tax benefit of € 1,487 from the special distribution. This benefit resulted from the refund of 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 decrease in the consolidated domestic valuation allowances was due in part to € 465 utilization of tax loss carryforwards. Additionally, € 1,003 was due to the reversal of the remaining valuation allowances as of December 31, 1997 for the German companies included in the filing of a combined tax return ("Organschaft") on the basis that the current and the expected results of operations supported a conclusion that it was more likely than not that the deferred tax assets would be realized.

During 1997, the Group sold its investment in Cap Gemini Sogeti S.A. and realized a gain of € 420 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 on deferred tax assets decreased by € 538. In 1996, the Group realized income tax benefits from the utilization of loss carryforwards of € 344 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 DaimlerChrysler 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 € 118. In addition, during 1996 the Group realized tax benefits of € 207 related to investments written down in previous years.

Deferred income tax assets and liabilities are summarized as follows:

	December 31, 1998	1997
Property, plant and equipment	**2,063**	**484**
Equipment on operating leases	**1,068**	**992**
Inventories	**1,328**	**1,259**
Receivables	**527**	**700**
Net operating loss and tax credit carryforwards	**1,056**	**3,367**
Retirement plans	**3,880**	**4,601**
Other accrued liabilities	**4,166**	**3,761**
Liabilities	**846**	**774**
Deferred income	**1,144**	**1,049**
Other	**549**	**504**
	16,627	**17,491**
Valuation allowances	**(411)**	**(268)**
Deferred tax assets	**16,216**	**17,223**
Property, plant and equipment	**2,743**	**2,541**
Equipment on operating leases	**4,252**	**3,601**
Inventories	**483**	**504**
Receivables	**3,645**	**3,257**
Prepaid expenses	**450**	**908**
Retirement plans	**2,069**	**1,891**
Other accrued liabilities	**367**	**410**
Foreign withholding taxes	**297**	**390**
Other	**1,059**	**535**
Deferred tax liabilities	**15,365**	**14,037**
Deferred tax assets, net	**851**	**3,186**

In 1998, DaimlerChrysler entered into an intercompany transaction to absorb the Group's Organschaft NOLs in a manner which resulted in no net tax effect. The transaction resulted in an increase in deferred tax assets mainly for property, plant and equipment in an amount equal to the decrease in deferred tax assets for the German NOLs.

At December 31, 1998, the Group had corporate tax NOLs and credit carryforwards amounting to € 1,724 (1997: € 6,141) and German trade tax NOLs amounting to € 2,156 (1997: € 6,346). The corporate tax NOLs and credit carryforwards mainly relate to losses of domestic and foreign non-Organschaft companies and are partly limited in their use to the Group. The Group's consolidated valuation allowances on deferred tax assets of domestic and foreign operations increased in the balance sheet by € 143. 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.

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

	December 31, 1998 *Total*	*thereof non-current*	*December 31, 1997* *Total*	*thereof non-current*
Deferred tax assets	**5,016**	**3,979**	**5,688**	**4,400**
Deferred tax liabilities	**4,165**	**2,884**	**2,502**	**1,609**
Deferred tax assets, net	**851**	**1,095**	**3,186**	**2,791**

DaimlerChrysler provided foreign withholding taxes of € 297 (1997: € 390) on € 5,948 (1997: € 7,789) in cumulative undistributed earnings of foreign subsidiaries because these earnings are not intended to be permanently reinvested in those operations. The Group did not provide income taxes or foreign withholding taxes on € 6,016 (1997: € 4,907) in cumulative earnings of foreign subsidiaries because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items charged or credited directly to related components of shareholders' equity, the provision (benefit) for income taxes consists of the following:

	Year ended December 31, 1998	1997	1996
Provision (benefit) for income taxes before extraordinary items	**3,075**	**(482)**	**1,547**
Income tax benefit of extraordinary items	**(78)**	**–**	**(90)**
Stockholders' equity for employee stock option expense in excess of amounts recognized for financial purposes	**(212)**	**(39)**	**(32)**
Stockholders' equity for items of other comprehensive income	**296**	**176**	**64**
	3,081	**(345)**	**1,489**

9. EXTRAORDINARY ITEM

In December 1998, DaimlerChrysler extinguished € 257 ($ 300) of the outstanding principal amount of its Auburn Hills Trust Guaranteed Exchangeable Certificates due 2020 (the "Certificates") at a cost of € 454 ($ 530). The extinguishment of the Certificates resulted in an extraordinary after tax loss of € 129 ($ 143) (net of income tax benefit of € 78 ($ 87)). At December 31, 1998, € 214 ($ 250) of the Certificates remained outstanding. The remaining Certificates are not redeemable prior to maturity and carry a current interest rate of 12 percent.

In December 1996, DaimlerChrysler extinguished € 437 ($ 550), or 50 percent, of the outstanding principal amount of its Auburn Hills Trust Guaranteed Exchangeable Certificates due 2020 at a cost of € 683 ($ 859). The extinguishment of the Certificates resulted in an extraordinary after tax loss of € 147 ($191) (net of income tax benefit of € 90 or $ 118).

NOTES TO THE CONSOLIDATED BALANCE SHEETS

10. 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 goodwill from the formation of Adtranz and the acquisition of American Motors Corporation. Intangible assets also include intangible pension assets.

Property, plant and equipment include buildings, technical equipment and other equipment capitalized under capital lease agreements of € 394 (1997: € 376). Depreciation expense on assets under capital lease arrangements was € 38 (1997: € 29; 1996: € 44).

11. 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, € 14,078 represent automobiles and commercial vehicles (1997: € 10,496).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 1998 are as follows:

1999	3,166
2000	1,933
2001	952
2002	286
2003	98
thereafter	151
	6,586

12. INVENTORIES

	At December 31, 1998	1997
Raw materials and manufacturing supplies	2,278	1,911
Work in process thereof relating to long-term contracts and programs in process € 919 (1997: € 705)	4,568	4,414
Finished goods, parts and products held for resale	7,631	6,789
Advance payments to suppliers	312	337
	14,789	13,451
Less: Advance payments received thereof relating to long-term contracts and programs in process € 578 (1997: € 769)	(2,993)	(2,554)
	11,796	10,897

Certain of the Group's U.S. inventories are valued using the LIFO method. If the FIFO method had been used instead of the LIFO method, inventories would have been higher by € 549 (1997: € 547).

13. TRADE RECEIVABLES

	At December 31, 1998	1997
Receivables from sales of goods and services	8,020	7,841
Long-term contracts and programs, unbilled, net of advance payments received	442	243
	8,462	8,084
Allowance for doubtful accounts	(857)	(819)
	7,605	7,265

As of December 31, 1998, € 399 of the trade receivables mature after more than one year (1997: € 440).

14. RECEIVABLES FROM FINANCIAL SERVICES

At December 31,	1998	1997
Receivables from:		
Sales financing	20,635	17,015
Finance leases	9,542	8,151
	30,177	25,166
Initial direct costs	96	85
Unearned income	(4,245)	(4,003)
Unguaranteed residual value of leased assets	804	870
	26,832	22,118
Allowance for doubtful accounts	(364)	(401)
	26,468	21,717

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, 1998 are as follows:

1999	12,903
2000	6,019
2001	4,599
2002	1,996
2003	1,059
thereafter	3,601
	30,177

Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and charge-offs.

As of December 31, 1998, € 14,733 of the financing receivables mature after more than one year (1997: € 12,336).

15. OTHER RECEIVABLES

At December 31,	1998	1997
Receivables from affiliated companies	480	375
Receivables from related companies[1)]	804	717
Other receivables and other assets	10,740	11,490
	12,024	12,582
Allowance for doubtful accounts	(1,249)	(1,206)
	10,775	11,376

[1)] Related companies include entities which have a significant ownership in DaimlerChrysler or entities in which the Group holds a significant investment.

Other receivables and other assets includes retained interests in sold receivables and subordinated asset backed certificates of € 3,046 (1997: € 3,357) and, in 1997, a tax refund of approximately € 1,500 relating to a special distribution.

As of December 31, 1998, € 4,199 of the other receivables mature after more than one year (1997: € 4,305).

16. 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, 1998	1997
Debt securities	4,565	4,259
Equity securities	971	1,131
Equity based funds	1,970	1,038
Debt based funds	4,654	3,752
	12,160	10,180

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, 1998				At December 31, 1997			
			Unrealized				Unrealized	
	Cost	Fair value	Gain	Loss	Cost	Fair vaule	Gain	Loss
Available-for-sale	10,501	11,183	706	24	8,603	8,952	356	6
Trading	934	977	44	1	1,218	1,228	10	–
Securities	11,435	12,160	750	25	9,821	10,180	366	6
Investments and long-term financial assets available-for-sale	278	675	397	–	282	520	238	–
	11,713	12,835	1,147	25	10,103	10,700	604	6

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

	At December 31, 1998				At December 31, 1997			
			Unrealized				Unrealized	
	Cost	Fair value	Gain	Loss	Cost	Fair vaule	Gain	Loss
Equity securities	1,116	1,623	513	5	693	1,063	371	1
Debt securities issued by the German government and its agencies	93	93	–	–	–	–	–	–
Municipal securities	418	418	–	–	59	59	–	–
Debt securities issued by foreign governments	892	893	5	3	1,360	1,362	5	2
Corporate securities	1,459	1,478	32	12	1,404	1,412	10	3
Equity based securities	1,761	1,970	208	–	834	1,038	205	–
Debt based securities	4,309	4,654	345	–	3,750	3,752	2	–
Asset-backed securities	597	595	–	3	761	761	–	–
Other marketable securities	134	134	–	1	24	25	1	–
Available-for-sale	10,779	11,858	1,103	24	8,885	9,472	594	6
Trading	934	977	44	1	1,218	1,228	10	–
	11,713	12,835	1,147	25	10,103	10,700	604	6

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.

Available-for-sale	At December 31, 1998	1997
Due within one year	975	930
Due after one year through five years	2,122	1,839
Due after five years through ten years	129	355
Due after ten years	385	495
	3,611	3,619

Proceeds from sales of available-for-sale securities were € 2,734 (1997: € 1,432; 1996: € 1,237). Gross realized gains from sales of available-for-sale securities were € 98 (1997: € 92; 1996: € 11), while gross realized losses were € 8 (1997: € 1; 1996: € 3). DaimlerChrysler uses the specific identification method as a basis for determining cost and calculating realized gains or losses.

Other securities classified as cash equivalents were approximately € 4,600 and € 3,900 at December 31, 1998 and 1997, respectively, and consisted primarily of purchase agreements, commercial paper and certificates of deposit.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include € 308 (1997: € 175) of deposits with original maturities of more than three months.

18. ADDITIONAL CASH FLOW INFORMATION

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

	At December 31, 1998	1997	1996
Cash and cash equivalents available within 3 months	6,281	6,634	4,879
Cash and cash equivalents which mature after 3 months	308	175	683
Securities	12,160	10,180	7,031
Other	324	336	258
	19,073	17,325	12,851

The following represents supplemental information with respect to cash flows:

	Year ended December 31, 1998	1997	1996
Interest paid	2,553	1,953	1,773
Income taxes paid	993	1,699	1,211

19. PREPAID EXPENSES

Prepaid expenses are comprised of the following:

	At December 31, 1998	1997
Prepaid pension cost	5,309	4,696
Other prepaid expenses	825	1,734
	6,134	6,430

As of December 31, 1998, € 5,280 of the total prepaid expenses mature after more than one year (1997: € 4,511).

20. STOCKHOLDERS' EQUITY

Number of shares issued and outstanding (adjusted for the Merger)
At December 31, 1998, DaimlerChrysler had issued and outstanding 1,001,733,220 registred, Ordinary Shares of no par value. However, each share represents € 2.56 of capital stock.

Special Distribution
On May 27, 1998 the Daimler-Benz shareholders approved, and on June 15, 1998 Daimler-Benz paid, a special distribution of € 10.23 (€ 10.04 after adjustment to reflect the approximately 20 % discount to market value at which the Daimler-Benz Ordinary Shares and ADS were sold in the rights offering) per Ordinary Share/ADS.

Rights Offering
In June 1998, Daimler-Benz issued to holders of Daimler-Benz Ordinary Shares, ADS's and convertible debt securities, rights to acquire up to an aggregate of 52.4 million newly issued Daimler-Benz Ordinary Shares and on June 25, 1998, Daimler-Benz issued and sold 52.4 million Daimler-Benz Ordinary Shares for net proceeds of € 3,827. The rights issued by Daimler-Benz entitled the holders to purchase Daimler-Benz Ordinary Shares at approximately a 20% discount to the market price of Daimler-Benz Ordinary Shares. Basic and diluted earnings per Ordinary Share have been restated to reflect the dilutive effect resulting from the discount to market value at which the Daimler-Benz Ordinary Shares were sold in the rights offering.

Treasury Stock
In November 1998, Chrysler contributed 23.5 million shares of its common stock to the Chrysler Corporation Retirement Master Trust, which serves as a funding medium for and holds the assets of various pension and retirement plans of Chrysler.

Preferred Stock
On July 24, 1998, Chrysler redeemed all of the outstanding Chrysler Depositary Shares representing its Series A Convertible Preferred Stock.

Authorized and conditional capital (DaimlerChrysler AG)
Through April 30, 2003, the Board of Management is authorized, upon approval of the Supervisory Board, to increase capital stock by a total of up to € 256 (authorized capital (i)) and to issue shares of up to € 26 to employees (authorized capital (ii)). Up to December 31, 1999, and upon approval of the Supervisory Board, the Board of Management may issue capital stock of up to € 77 for the subscription of shareholders of the former Daimler-Benz Aktiengesellschaft (authorized capital (iii)).

With respect to the 4.125% convertible notes and the 5.75% subordinated mandatory convertible notes described below, capital stock may be conditionally increased by up to € 43.7 in the period from July 1, 1998, up to the time the merger with Daimler-Benz Aktiengesellschaft became effective (conditional capital (iv)) and € 43.7 for conversions after this date (conditional capital (i)). A contingent increase of capital stock may also result upon conversions related to the 1996, 1997 and 1998 Stock Option Plans as described in Note 21. For this purpose, amounts of up to € 40.0 each are reserved for the period from July 1, 1998, up to the time the merger with Daimler-Benz Aktiengesellschaft became effective (conditional capital (v)) and for conversions after this date (conditional capital (ii)). In addition, DaimlerChrysler is authorized for future issuances of shares equaling up to € 102 of capital stock in connection with convertible bonds or bonds with warrants issued or guaranteed by April 30, 2003 (conditional capital (iii)).

Convertible notes
During 1996, DaimlerChrysler Luxembourg Capital S.A. (formerly: Daimler-Benz Capital (Luxembourg) AG), a subsidiary of DaimlerChrysler, issued 4.125% bearer notes with appertaining warrants due July 5, 2003, in the amount of € 383 with a nominal value of € 511 each, including a total of 7,690,500 options which, on the basis of the option agreement, entitled the bearer of the option to subscribe for shares of Daimler-Benz AG. The option price per share (adjusted for the Merger) is € 42.67 in consideration of exchange of the notes or € 44.49 in cash. During 1998, options for the subscription of 5,027,002 (1997: 1,785; 1996: 36) newly issued Daimler-Benz Ordinary Shares have been exercised.

In June 1997, DaimlerChrysler issued 5.75% subordinated mandatory convertible notes due June 14, 2002 with a nominal amount of € 66.83 per note. These convertible notes represent a nominal amount of € 508 including 7,600,000 notes which may be converted (adjusted for the Merger) into 0.86631 newly issuable shares before June 4, 2002. Notes not converted by this date will be mandatorily converted at a conversion rate between 0.86631 and 1.25625 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 1998, 3,713 (1997: 156) Daimler-Benz Ordinary Shares were issued upon exercise.

Comprehensive income
The changes in the components of other comprehensive income (loss) are as follows:

	Year ended December 31,								
		1998			**1997**			**1996**	
	Pretax	*Tax Effect*	*Net*	*Pretax*	*Tax Effect*	*Net*	*Pretax*	*Tax Effect*	*Net*
Unrealized gain (loss) on securities:									
Unrelialized holding gain (loss)	659	(354)	305	439	(230)	209	105	(60)	45
Reclassification adjustments	(103)	57	(46)	(106)	54	(52)	(13)	6	(7)
Net unrealized gain (loss)	556	(297)	259	333	(176)	157	92	(54)	38
Foreign currency translation adjustment	(1,402)	–	(1,402)	1,865	–	1,865	1,034	–	1,034
Minimum pension liability adjustment	(2)	1	(1)	1	(.)	1	26	(10)	16
Other comprehensive income (loss)	(848)	(296)	(1,144)	2,199	(176)	2,023	1,152	(64)	1,088

Miscellaneous
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 DaimlerChrysler 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 DaimlerChrysler 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, 1998, DaimlerChrysler management has proposed a distribution of € 2,356 (€ 2.35 per share) of the 1998 earnings of DaimlerChrysler AG as a dividend to the stockholders.

21. STOCK-BASED COMPENSATION

The Group currently has variable stock option plans, which were originally approved by Daimler-Benz and have been converted to options for DaimlerChrysler Ordinary Shares and a Stock Appreciation Rights plan. Prior to the Merger, Chrysler had both fixed stock option and performance-based stock compensation plans. These plans were terminated as a result of the Merger and all outstanding options and awards were vested and converted to DaimlerChrysler Ordinary Shares. The Group accounts for all stock-based compensation plans in accordance with APB Opinion No. 25 and related interpretations.

Variable Stock Option Plans
DaimlerChrysler established the 1998, 1997 and 1996 Stock Option Plans, which provide for the granting of options ("Stock Options") for the purchase of DaimlerChrysler Ordinary Shares to certain members of management, based on the share-holders' approvals of 1996 and 1997. The options granted under the Plan are evidenced by non-transferable convertible bonds with a principal amount of € 511 per bond due ten years after issuance. During certain specified periods each year, each convertible bond may be converted into 201 DaimlerChrysler Ordinary Shares, if the market price per share on the day of conversion is at least 15 % higher than the predetermined conversion price and the options have been held for a 24 month waiting period. The specific terms of these plans (adjusted for the Merger) are as follows:

Bonds granted in	Due	Stated interest rate	Conversion price
1996	**July 2006**	**5.9 %**	**€ 42.62**
1997	**July 2007**	**5.3 %**	**€ 65.90**
1998	**July 2008**	**4.4 %**	**€ 92.30**

In 1997, a stockholder challenged the approval of the 1997 Stock Option Plan at the stockholders' meeting on May 28, 1997. A regional court in Stuttgart (the Landgericht) dismissed this case and a higher court in Stuttgart (the Oberlandesgericht) dismissed an appeal. The stockholder has subsequently appealed these decisions. The conversion rights for the 1997 and 1998 Stock Option Plans are exercisable only upon successful resolution of the stockholder legal action.

Analysis of the Stock Options issued to management is as follows (shares in millions; adjusted for the Merger):

	1998		1997		1996	
	Number of Stock Options	Average conversion price per share	Number of Stock Options	Average conversion price per share	Number of Stock Options	Average conversion price per share
Balance at beginning of year	**7.5**	**65.60**	**0.2**	**42.62**	**–**	**–**
Bonds sold	**8.2**	**92.30**	**7.4**	**65.90**	**0.9**	**42.62**
Converted	**(·)**	**42.62**	**(0.1)**	**42.62**	**(0.7)**	**42.62**
Repayment	**(0.2)**	**72.22**	**(·)**	**65.90**	**(·)**	**42.62**
Outstanding at year-end	**15.5**	**79.63**	**7.5**	**65.60**	**0.2**	**42.62**
Exercisable at year-end	**0.1**	**42.62**	**0.1**	**42.62**	**0.2**	**42.62**

At December 31, 1998, no additional convertible bonds may be subscribed under these plans.

Compensation cost recognized in 1998 in connection with the variable stock option plans amounted to € 38 (1997: € 0; 1996: € 0).

Stock Appreciation Rights

In conjunction with the consummation of the Merger, the Group implemented a new Stock Appreciation Rights plan ("SARs"). SARs provide eligible employees of the Group with the right to receive cash equal to the appreciation of DaimlerChrysler Ordinary Shares subsequent to the date of grant. The initial grant of SARs replaced Chrysler fixed stock options that were converted to DaimlerChrysler Ordinary Shares as of the consummation of the Merger. SARs which replaced stock options that were exercisable at the time of the consummation of the Merger were immediately exercisable at the date of grant. SARs related to stock options that were not exercisable at the date of consummation of the Merger will become exercisable in two installments; 50 percent on the six-month and one-year anniversaries of the consummation date.

A summary of the activity related to the SARs as of and for the year ended December 31, 1998 is presented below (shares in millions):

	1998	
	Number of SARs	*Weighted-avg. exercise price*
Granted	22.3	$75.56
Exercised	(0.1)	75.56
Outstanding at end of year	22.2	75.56
SARs exercisable at year end	11.3	$75.56

Compensation expense (benefit) is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares, the number of exercisable SARs and a pro-rata portion of the unexercisable SARs. Compensation expense recognized subsequent to the Merger for SARs was € 251 ($279).

Chrysler Fixed Stock Option Compensation Plans

A summary of the status of fixed stock option grants under Chrysler's stock-based compensation plans as of December 31, 1998, 1997 and 1996, and changes during the years ending on those dates is presented below (shares in millions):

	1998		1997		1996	
	Chrysler shares under option	*Weighted-average exercise price*	*Chrysler shares under option*	*Weigthed-average exercise price*	*Chrysler shares under option*	*Weighted-average exercise price*
Outstanding at beginning of year	30.7	$27.71	28.5	$23.68	29.4	$19.40
Granted	9.2	39.82	10.1	33.72	9.2	28.66
Exercised	(3.8)	23.38	(7.8)	20.92	(7.2)	16.11
Forfeited	(0.1)	30.60	(0.1)	26.70	(2.9)	14.79
Converted to DaimlerChrysler shares	(36.0)	31.24	–	–	–	–
Outstanding at end of year	–	–	30.7	27.71	28.5	23.68
Options exercisable at year end	–	–	13.4	$23.43	13.3	$20.12

No compensation expense has been recognized for Chrysler fixed stock option grants since the options had exercise prices of not less than the market value of Chrysler´s common stock at the date of grant.

Chrysler Performance-Based Stock Compensation Plan

Chrysler's stock-based compensation plans also provided for the awarding of Performance Shares, which rewarded attainment of performance objectives. Performance Shares were awarded at the commencement of a performance cycle (two to three years) to each eligible executive (officers and a limited number of senior executives). At the end of each cycle, participants may earn no Performance Shares or a number of Performance Shares, ranging from a set minimum to a maximum of 150 percent of the award for that cycle, as determined by a committee of Chrysler´s Board of Directors based on the Chrysler's performance in relation to the performance goals established at the beginning of the performance cycle.

Compensation expense recognized for Performance Share awards (since the awards had no exercise price) was € 65 ($72), € 18 ($20) and € 23 ($30) for 1998, 1997 and 1996, respectively. Unearned Chrysler Performance Share awards outstanding at the date of the Merger and December 31, 1997 and 1996 were 1.9 million, 0.9 million and 0.8 million, respectively. As a result of the Merger, all Performance Shares were vested and converted to DaimlerChryler Ordinary Shares.

Miscellaneous

If compensation expense for stock-based compensation had been based upon the fair value at the grant date, consistent with the methodology prescribed under SFAS 123, "Accounting for Stock Based Compensation," the Group's net income and basic and diluted earnings per share would have been reduced by approximately € 127 and € 25 (basic earnings per share: € 0.13 and € 0.03; diluted earnings per share: € 0.13 and € 0.03) in 1998 and 1997, respectively. The pro forma effect on the Group's consolidated net income and basic and diluted earnings per share for 1996 was not material.

The fair value of the variable stock options was calculated at the grant date based on a trinomial tree option pricing model which considers the terms of the issuance. The underlying assumptions and the resulting fair value per option are as follows (at grant date):

	1998	1997
Expected dividend yield	2.45 %	0.83 %
Expected volatility	35.2 %	26.2 %
Risk-free interest rate	4.09 %	3.65 %
Expected lives (in years)	2	2
Fair value per option	€ 19.38	€ 11.76

The fair value of each Chrysler fixed stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants and resulting fair values in 1998, 1997 and 1996:

	1998	1997	1996
Expected dividend yield	4.0 %	4.7 %	4.8 %
Expected volatility	29 %	26 %	31 %
Risk-free interest rate	5.7 %	6.2 %	6.7 %
Expected lives (in years)	5	5	5
Fair value per option	$9.20	$6.79	$6.87

Since Chrysler's fixed stock option grants did not vest, except upon retirement or a change in corporate control, compensation expense was recognized over the expected life of the option (i.e., five years).

The fair value of each Performance Share award was estimated at the date of grant based on the market value of a share of Chrysler common stock on the date of grant. Performance Share awards were recognized over performance cycles of two to three years. However, because all outstanding fixed stock option and Performance Share grants were vested as of the date of the Merger, for purposes of SFAS 123, all remaining compensation expense was recognized in 1998.

22. ACCRUED LIABILITIES

Accrued liabilities are comprised of the following:

	At December 31, 1998 *Total*	1998 *Due after one year*	1997 *Total*	1997 *Due after one year*
Pension plans and similar obligations (see Note 22a)	16,618	15,714	17,821	16,963
Income and other taxes	1,122	246	1,006	302
Other accrued liabilities (see Note 22b)	16,889	6,464	16,960	7,076
	34,629	22,424	35,787	24,341

a) Pension plans and similar obligations

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

	At December 31, 1998	1997
Pension liabilities (Pension plans)	9,148	8,739
Accrued postretirement health and life insurance benefits	7,020	8,818
Other pension liabilities	450	264
	16,618	17,821

In 1998 the accrued postretirement benefits mainly decreased due to contributions to a Voluntary Employees' Beneficiary Association ("VEBA") trust in 1998, 1997 and 1996 totalling € 1,498 which are now designated for the payment of postretirement health care benefits and therefore appropriated to plan assets.

Pension Plans
The Group provides pension benefits to substantially all of its hourly and salaried employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment while others are fixed plans depending on ranking (both wage level and position).

At December 31, 1998, plan assets were invested in diversified portfolios that consisted primarily of real estate, debt and equity securities, including 14.4 million shares of DaimlerChrysler Ordinary Shares with a market value of € 1,197 in a U.S. plan, which were contributed in connection with the Merger (see Note 20).

Assets and income accruing on all pension trust and relief funds are used solely to pay pension benefits and administer the plans.

The following information with respect to the Group's pension plans is presented by U.S. Plans and Non-U.S. Plans which are principally comprised of plans in Germany. The schedules are in accordance with SFAS 132 which does not change the method of accounting for such plans.

In 1998 DaimlerChrysler used the rates of the new Heubeck mortality tables for the valuation of the German pension liabilities. The mortality assumptions reflect longer living expectations as well as lower levels of disability, which resulted in a significant increase in actuarial losses for Non-U.S. Plans in 1998.

	At December 31, 1998		At December 31, 1997	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Change in Projected benefit obligations:				
Projected benefit obligations at beginning of year	14,235	13,048	11,430	11,881
Foreign currency exchange rate changes	(1,001)	(211)	1,757	178
Service cost	378	309	261	277
Interest cost	931	834	899	817
Plan amendments	43	39	35	3
Actuarial losses	658	849	683	450
Effect of curtailments/settlements	–	1	–	–
Acquisitions and other	(143)	132	2	(20)
Benefits paid	(898)	(595)	(832)	(538)
Projected benefit obligations at end of year	14,203	14,406	14,235	13,048
Change in plan assets:				
Fair value of plan assets at beginning of year	16,231	4,521	12,608	3,947
Foreign currency exchange rate changes	(1,220)	(190)	1,957	192
Actual return on plan assets	2,254	526	2,445	591
Employer contributions	1,300	5	33	60
Plan participant contributions	–	20	15	1
Acquisitions and other	(115)	122	9	(60)
Benefits paid	(897)	(235)	(836)	(210)
Fair value of plan assets at end of year	17,553	4,769	16,231	4,521

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

	At December 31, 1998 U.S. Plans	At December 31, 1998 Non-U.S. Plans	At December 31, 1997 U.S. Plans	At December 31, 1997 Non-U.S. Plans
Funded status *)	(3,349)	9,637	(1,996)	8,527
Unrecognized actuarial net gains (losses)	344	(1,012)	130	(443)
Unrecognized prior service cost	(1,436)	(102)	(1,700)	(130)
Unrecognized net obligation (net assets) at date of initial application	(353)	(4)	(506)	(6)
Net amount recognized	(4,794)	8,519	(4,072)	7,948
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid pension cost	(4,816)	(493)	(4,074)	(621)
Accrued pension liability	136	9,012	170	8,569
Intangible assets	(94)	–	(135)	–
Accumulated other comprehensive income	(20)	–	(33)	–
Net amount recognized	(4,794)	8,519	(4,072)	7,948

*) Difference between the projected benefit obligations and the fair value of plan assets.

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 weighted-average assumptions used in calculating the actuarial values for the principal pension plans were as follows:

	1998 U.S. Plans %	1998 Non-U.S. Plans %	1997 U.S. Plans %	1997 Non-U.S. Plans %	1996 U.S. Plans %	1996 Non-U.S. Plans %
Weighted-average assumptions as of December 31:						
Discount rate	6.5	6.0	6.8	6.5	7.3	6.8
Expected return on plan assets	9.7	8.1	9.7	8.1	9.7	8.1
Rate of compensation increase	5.9	3.3	6.0	3.7	6.0	3.8

The components of net periodic pension cost were as follows:

	1998 U.S. Plans	1998 Non-U.S. Plans	1997 U.S. Plans	1997 Non-U.S. Plans	1996 U.S. Plans	1996 Non-U.S. Plans
Service cost	378	309	261	277	246	289
Interest cost	931	834	899	817	721	802
Expected return on plan assets	(1,391)	(326)	(1,265)	(305)	(1,001)	(274)
Amortization of						
Unrecognized net actuarial losses	41	37	20	33	57	23
Unrecognized prior service cost	165	22	176	18	120	18
Unrecognized net obligation	124	2	123	2	105	2
Other	2	(2)	18	3	116	4
Net periodic pension cost	250	876	232	845	364	864

The projected benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were € 13,391 and € 3,497, respectively, as of December 31, 1998 and € 12,048 and € 3,283 respectively, as of December 31, 1997.

The following information with respect to the Group's postretirement benefit plans is presented by U.S. Plans and Non-U.S. Plans; the latter concerning Canadian companies. The schedules are in accordance with SFAS 132 which does not change the method of accounting for such plans.

Other Postretirement benefits

Certain DaimlerChrysler operations in North America provide postretirement health and life insurance benefits to their employees. Upon retirement from DaimlerChrysler the employees may become eligible for continuation of these benefits. The benefits and eligibility rules may be modified periodically. At December 31, 1998 plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities.

	At December 31, 1998 U.S. Plans	At December 31, 1998 Non-U.S. Plans	At December 31, 1997 U.S. Plans	At December 31, 1997 Non-U.S. Plans
Change in accumulated postretirement benefit obligations:				
Accumulated postretirement benefit obligations at beginning of year	8,950	717	7,508	528
Foreign currency exchange rate changes	(713)	(50)	1,157	81
Service cost	173	16	153	11
Interest cost	598	48	548	44
Plan participant contributions	–	–	–	–
Plan amendments	279	1	(302)	2
Actuarial losses	348	25	291	99
Acquisitions and other	–	(52)	1	(27)
Benefits paid	(431)	(23)	(406)	(21)
Accumulated postretirement benefit obligations at end of year	9,204	682	8,950	717
Change in plan assets:				
Fair value of plan assets at beginning of year	91	–	66	–
Foreign currency exchange rate changes	(24)	–	11	–
Actual return on plan assets	13	–	12	–
Employer contributions	1,498	–	5	–
Benefits paid	(4)	–	(3)	–
Fair value of plan assets at end of year	1,574	–	91	–

A reconciliation of the funded status to the amounts recognized in the consolidated balance sheets is as follows:

	At December 31, 1998 U.S. Plans	1998 Non-U.S. Plans	1997 U.S. Plans	1997 Non-U.S. Plans
Funded status*)	7,629	682	8,859	717
Unrecognized actuarial net losses	(800)	(214)	(494)	(232)
Unrecognized prior service cost	(269)	(8)	(25)	(7)
Net amount recognized	6,560	460	8,340	478

*) Difference between the accumulated postretirement obligations and the fair value of plan assets.

The amount recognized in the consolidated balance sheets consist only of accrued postretirement health and life insurance benefits.

Assumed discount rates and rates of increase in remuneration used in calculating the accumulated postretirement 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 weighted-average assumptions used in calculating the actuarial values for the postretirement benefit plans were as follows:

	1998 U.S. Plans %	1998 Non-U.S. Plans %	1997 U.S. Plans %	1997 Non-U.S. Plans %	1996 U.S. Plans %	1996 Non-U.S. Plans %
Weighted-average assumptions as of December 31:						
Discount rate	6.5	6.3	6.8	6.5	7.3	6.5
Expected return on plan assets	10.0	–	8.5	–	8.5	–
Health care inflation rate in following (or “base”) year	6.0	5.1	6.5	5.9	6.0	6.0
Ultimate health care inflation rate (2002)	5.0	4.7	5.0	4.8	5.1	5.1

The components of net periodic postretirement benefit cost were as follows:

	1998		1997		1996	
	U.S. Plans	*Non-U.S. Plans*	*U.S. Plans*	*Non-U.S. Plans*	*U.S. Plans*	*Non-U.S. Plans*
Service cost	173	16	153	11	147	8
Interest cost	598	48	548	44	489	38
Expected return on plan assets	(6)	–	(5)	–	–	–
Amortization of:						
Unrecognized net actuarial losses (gains)	3	11	(1)	–	(6)	–
Unrecognized prior service cost	24	(1)	1	3	15	3
Unrecognized net asset	–	–	(1)	–	(24)	(1)
Other	–	–	2	–	5	–
Net periodic postretirement benefit cost	792	74	697	58	626	48

The following schedule presents the effects of a one-percentage-point change in assumed health care cost trend rates:

	1-Percentage-Point Increase	*1-Percentage-Point Decrease*
Effect on total of service and interest cost components	111	(91)
Effect on accumulated postretirement benefit obligations	1,067	(876)

Prepaid Employee Benefits

In December 1998, DaimlerChrysler prepaid certain 1999 nonpension employee benefits by contributing € 292 to a Voluntary Employees' Beneficiary Association ("VEBA") trust for payment of postretirement health care benefits. Also in 1998, € 1,206 of the amounts contributed to the VEBA in 1997 and 1996 were designated and restricted for the payment of postretirement health care benefits. Therefore in 1998 the total of € 1,498 were assigned to the plan assets of the postretirement health care and life insurance benefit plans. In December 1997, Chrysler prepaid certain 1998 nonpension employee benefits by contributing € 975 to a VEBA trust and other employee benefit plans. In December 1996, DaimlerChrysler prepaid certain 1997 nonpension employee benefits by contributing € 846 to a VEBA trust and other employee benefit plans.

b) Other accrued liabilities
Other accrued liabilities consisted of the following:

	At December 31, 1998	1997
Accrued warranty costs and price risks	6,386	6,363
Accrued losses on uncompleted contracts	762	646
Restructuring	635	728
Accrued personnel and social costs	2,263	2,035
Other	6,843	7,188
	16,889	16,960

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, 1996	832	226	1,058
Utilizations and transfers	(284)	(26)	(310)
Reductions	(194)	(17)	(211)
Additions	216	180	396
Balance at December 31, 1996	570	363	933
Utilizations and transfers	(269)	(187)	(456)
Reductions	(45)	(37)	(82)
Additions	299	34	333
Balance at December 31, 1997	555	173	728
Utilizations and transfers	(242)	(110)	(352)
Reductions	(12)	(19)	(31)
Additions	259	31	290
Balance at December 31, 1998	560	75	635

In connection with the Group's restructuring, provisions were recorded for termination benefits of € 259 (1997: € 299; 1996: € 216), in 1998 principally within the Automotive Business of the former Daimler-Benz Group and DaimlerChrysler Aerospace, in 1997 principally within the Automotive Business of the former Daimler-Benz Group and 1996 principally within the Automotive Business of the former Daimler-Benz Group, AEG-DBI and DaimlerChrysler Aerospace. In connection with these restructuring efforts, the Group effected workforce reductions of approximately 7,100 employees (1997: 6,600; 1996: 11,800) and paid termination benefits of € 413 (1997: € 503; 1996: € 381), of which € 242 (1997: € 269; 1996: € 284) were charged against previously established liabilities. At December 31, 1998 the Group had liabilities for estimated future terminations for approximately 9,500 employees.

During 1996, the aerospace industry experienced a significant increase in demand. As a consequence, higher production requirements resulted, especially for DaimlerChrysler Aerospace Airbus GmbH, in a reduction of approximately € 153 in certain restructuring provision made in 1995.

Exit costs in 1998 and 1997 primarily result from the restructuring of directly managed businesses. In 1996 they relate exclusively to the restructuring of businesses of the former AEG-DBI.

23. FINANCIAL LIABILITIES

	Weighted average interest rate (%)	Maturities	At December 31, 1998	1997
Notes/Bonds	5.8		3,207	3,030
Commercial paper	5.4		11,015	8,991
Liabilities to financial institutions	5.2		4,999	4,420
Liabilities to affiliated companies			158	29
Loans, other financial liabilities			319	406
Liabilities from capital lease and residual value guarantees			777	465
Short-term financial liabilities (due within one year)			20,475	17,341
Notes/Bonds of which due in more than five years: € 2,605 (1997: € 3,472)	6.1	2000–2097	14,576	12,671
Liabilities to financial institutions of which due in more than five years: € 2,185 (1997: € 1,492)	5.8	2000–2019	4,311	3,485
Liabilities to affiliated companies of which due in more than five years: € 28 (1997: € 87)			171	283
Loans, other financial liabilities of which due in more than five years: € 36 (1997: € 35)			64	55
Liabilities from capital lease and residual value guarantees of which due in more than five years: € 228 (1997: € 307)			833	540
Long-term financial liabilities			19,955	17,034
			40,430	34,375

Commercial paper is denominated in € 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 € 1,526 (1997: € 1,190).

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

	1999	2000	2001	2002	2003	thereafter
Financial liabilities	20,475	5,749	4,226	3,358	1,541	5,081

At December 31, 1998, the Group had unused short-term credit lines of € 7,984 (1997: € 11,027) and unused long-term credit lines of € 10,903 (1997: € 11,047).

24. TRADE LIABILITIES

	At December 31, 1998			At December 31, 1997		
	Total	Due after one year	Due after five years	Total	Due after one year	Due after five years
Trade liabilities	12,848	54	1	12,026	32	2

25. OTHER LIABILITIES

	At December 31, 1998			At December 31, 1997		
	Total	Due after one year	Due after five years	Total	Due after one year	Due after five years
Liabilities to affiliated companies	349	–	–	553	–	–
Liabilities to related companies	665	20	11	956	19	12
Other liabilities	8,235	587	2	6,403	815	16
	9,249	607	13	7,912	834	28

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

Other liabilities include payroll obligations of the month of December and related tax liabilities. As of December 31, 1998, tax liabilities include employee withholding taxes of € 1,025 (1997: € 711) and social benefits due of € 759 (1997: € 659).

26. DEFERRED INCOME

As of December 31, 1998, € 986 of the total deferred income mature after more than one year (1997: € 1,321).

OTHER NOTES

27. LITIGATION AND CLAIMS

Various claims and legal proceedings have been asserted or instituted against the Group, including some purporting to be class actions, and some which demand large monetary damages or other relief which could result in significant expenditures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term “reasonably possible” is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely. Although the final resolution of any such matters could have a material effect on the Group’s consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, the Group believes that any resulting adjustment should not materially affect its consolidated financial position.

28. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies are presented at their contractual values and include the following:

	At December 31, 1998	1997
Guarantees	2,449	2,107
Notes payable	103	100
Contractual guarantees	500	829
Pledges of indebtedness of others	307	186
	3,359	3,222

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

DaimlerChrysler is subject to potential liability under government regulations and various claims and legal actions which are pending or may be asserted against DaimlerChrysler concerning environmental matters. Estimates of future costs of such environmental matters are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the development and application of new technologies, the identification of new sites for which DaimlerChrysler may have remediation responsibility and the apportionment and collectibility of remediation costs among responsible parties.

DaimlerChrysler establishes reserves for these environmental matters when a loss is probable and reasonably estimable. It is reasonably possible that the final resolution of some of these matters may require DaimlerChrysler to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although the final resolution of any such matters could have a material effect on DaimlerChrysler's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, DaimlerChrysler believes that any resulting adjustment should not materially affect its consolidated financial position.

DaimlerChrysler periodically initiates voluntary service actions and recall actions to address various customer satisfaction, safety and emissions issues related to vehicles it sells. DaimlerChrysler establishes reserves for product warranty, including the estimated cost of these service and recall actions, when the related sale is recognized. The estimated future costs of these actions is based primarily on prior experience. Estimates of the future costs of these actions are inevitably imprecise due to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by a service or recall action, and the nature of the corrective action which may result in adjustments to the established reserves. It is reasonably possible that the ultimate cost of these service and recall actions may require DaimlerChrysler to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. Although the ultimate cost of these service and recall actions could have a material effect on DaimlerChrysler's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, DaimlerChrysler believes that any such adjustment should not materially affect its consolidated financial position.

In connection with the development of aircraft, DaimlerChrysler Aerospace Airbus GmbH ("DA") is committed to Airbus Industrie to incur future development costs. At December 31, 1998, the remaining commitment not recorded in the financial statements aggregated € 316.

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, 1998, in connection with DA's participation in the Airbus consortium, DA was contingently liable related to the Airbus consortium's irrevocable financing commitments in respect of aircraft on order, including options, for delivery in the future. In addition, DA was also contingently liable related to credit guarantees and participations in financing receivables of the Airbus consortium under customer finance programs. When entering into such customer financing commitments, the Airbus consortium has generally established a secured position in the aircraft being financed. The Airbus consortium and DA 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.

DA's obligations under the foregoing financing commitments of the 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, each consortium partner would be jointly and severally liable to third parties without limitation. Between the consortium partners, the liability is limited to each partner's proportionate share in Airbus.

In 1989, the Group acquired Messerschmitt-Bölkow-Blohm GmbH ("MBB"), which included DaimlerChrysler Aerospace Airbus GmbH (then known as Deutsche Airbus GmbH) which was and continues to be the German participant in Airbus Industrie. In connection with this acquisition, the Government of the Federal Republic of Germany undertook responsibility for certain financial obligations of MBB and DaimlerChrysler Aerospace Airbus GmbH and agreed to provide certain ongoing limited financial assistance for development programs and other items. Such undertakings, advances and assistance were to be repaid by DaimlerChrysler Aerospace Airbus GmbH on a contingent basis equal to 40% of the prior year's pretax profit, as defined in the agreement with the Government, beginning in 2001, and royalty payments based on sales of aircraft.

During 1998 and 1997, DaimlerChrysler Aerospace Airbus GmbH settled these contingent obligations with the Federal Republic of Germany for payments of € 895 and € 716, respectively. The 1998 settlement, which resulted in the complete discharge of all remaining obligations to the German Federal Government, related to the Airbus A300/310 and A330/340 series aircraft as well as to financial assistance not related to development, while the 1997 settlement related primarily to the A320 aircraft and derivatives. Of the foregoing settlement payments, € 229 and € 369 were expensed in 1998 and 1997, respectively. The remainder of the settlement payments were capitalized and are being amortized over those aircraft to be delivered in the future to which the settlements related.

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 may be required to compensate suppliers in the event the committed volumes are not purchased.

In the normal course of business, the Group sells to third parties certain of its receivables from financial services. During the year ended December 31, 1998 the Group sold financial receivables for proceeds of € 40,863 (1997: € 44,336). In connection with such sales, the Group remained liable under recourse provisions for € 182 (1997: € 161).

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

Total rentals under operating leases, charged as an expense in the statement of income, amounted to € 984 (1997: € 910; 1996: € 826). Future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 1998 are as follows:

	Operating leases
1999	**543**
2000	**371**
2001	**283**
2002	**218**
2003	**168**
thereafter	**870**

29. INFORMATION ABOUT FINANCIAL INSTRUMENTS

a) Use of financial instruments

In the course of day-to-day financial management, DaimlerChrysler purchases financial instruments, such as financial investments, variable- and fixed-interest bearing securities and stock, forward exchange contracts and currency options. The Group also sells financial instruments such as eurobonds, commercial paper and euro-medium-term-notes. As a consequence, the Group may be exposed to risks from changes in interest and currency exchange rates as well as share prices. DaimlerChrysler 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, including a clear segregation of duties with regard to operating financial activities and settlement, accounting and controlling.

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 are calculated on the basis of statistical methods. The maximum acceptable market risk is established by senior management in the form of risk capital, approved for a period not exceeding one year. Adherence to risk capital limitations 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 DaimlerChrysler through its use of derivatives.

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

	At December 31,	
Balance Sheet information	**1998**	**1997**
Currency contracts	**28,204**	**22,912**
Interest rate contracts	**26,162**	**30,093**

Currency contracts include foreign exchange forward and option contracts which are mainly utilized to hedge existing receivables and liabilities, firm commitments and anticipated transactions denominated in foreign currencies (principally U.S. dollars, Japanese Yen and major European 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 periods 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 safeguard financial investments against fluctuating interest rates as well as 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. DaimlerChrysler 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, 1998		*At December 31, 1997*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Balance Sheet Financial Instruments:				
Assets:				
Financial assets	**912**	**912**	**1,485**	**1,485**
Receivables from financial services	**26,468**	**26,460**	**21,717**	**21,818**
Securities	**12,160**	**12,160**	**10,180**	**10,180**
Cash and cash equivalents	**6,590**	**6,590**	**6,809**	**6,809**
Other	**261**	**261**	**336**	**336**
Liabilities:				
Financial liabilities	**40,430**	**40,459**	**34,375**	**35,236**
Off-Balance Sheet Financial Instruments:				
Assets:				
Currency contracts	**338**	**744**	**173**	**367**
Interest rate contracts	**97**	**309**	**60**	**116**
Liabilities:				
Currency contracts	**268**	**349**	**535**	**972**
Interest rate contracts	**19**	**303**	**48**	**222**

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, 1998 and 1997, the Group had deferred net unrealized gains (losses) on forward currency exchange contracts and options of € 325 and € (243), 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, 1998 and 1997.

The fair values of residual cash flows and other subordinated amounts arising from receivable sale transactions were estimated by discounting expected cash flows at current market rates.

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.

In the event of an early termination of a currency exchange agreement designated as a hedge, the gain or loss continues to be deferred and is included in the settlement of the underlying transaction.

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").

In the event of an early termination of an interest rate related derivative designated as a hedge, the gain or loss is deferred and recorded as an adjustment to interest income, net over the remaining term of the underlying transaction.

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.

30. SEGMENT REPORTING

Effective January 1, 1998, the Group adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." Segment data for 1997 and 1996 has been restated.

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

Passenger Cars Mercedes-Benz, Smart. This segment includes activities related mainly to the development, manufacture and sale of passenger cars and off-road vehicles under the brand names Mercedes-Benz and Smart as well as related parts and accessories.

Passenger Cars and Trucks Chrysler, Plymouth, Jeep, Dodge. This segment includes the research, design, manufacture, assembly and sale of cars and trucks under the brand names Chrysler, Plymouth, Jeep and Dodge and related automotive parts and accessories.

Commercial Vehicles Mercedes-Benz, Freightliner, Sterling, Setra. This segment is involved in the development, manufacture and sale of vans, trucks, buses and Unimogs as well as related parts and accessories. The products are sold mainly under the brand names Mercedes-Benz and Freightliner.

Chrysler Financial Services. This segment is comprised primarily of Chrysler Financial Company, L.L.C., which is engaged principally in retail and lease financing for vehicles, dealer inventory and other financing needs, dealer property and casualty insurance, and dealership facility development and management, primarily related to the Chrysler, Plymouth, Jeep and Dodge brands.

Services. The activities in this segment extend to the marketing of services related to information technology, financial services (other than Chrysler Financial Services), insurance brokerage, trading, telecommunications and media, as well as real estate management.

Aerospace. This division comprises the 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.

Other. Represents principally the Directly Managed Businesses including rail systems (50% interest in Adtranz), automotive electronics (up to December 31, 1997, microelectronics), recognition and sorting systems (up to December 31, 1996) and diesel engines. Other also contains corporate research, real estate activities and holding and financing companies.

The Group's management reporting and controlling systems are substantially the same as those described in the summary of significant accounting policies (U.S. GAAP). The Group measures the performance of its operating segments through "Operating Profit." Segment Operating Profit is defined as income before financial income and income taxes included in the consolidated statement of income, modified to exclude certain pension and postretirement benefit costs and merger costs and to include certain financial income, net.

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

Revenues are allocated to countries based on the location of the customer; long-term assets, according to the location of the respective units.

Capital expenditures represent the purchase of property, plant and equipment.

	Passenger Cars Mercedes-Benz, smart	Passenger Cars Trucks Chrysler, Plymouth, Jeep, Dodge	Commercial Vehicles Mercedes-Benz, Freightliner, Sterling, Setra	Chrysler Financial Services	Services	Aero space	Other	Elimi-nations	Consoli-dated
1998									
Revenues	30,859	56,278	22,374	2,726	7,817	8,722	3,006	–	131,782
Intersegment sales	1,728	62	788	151	1,756	48	420	(4,953)	–
Total revenues	32,587	56,340	23,162	2,877	9,573	8,770	3,426	(4,953)	131,782
Operating Profit (Loss)	1,993	4,212	946	652	392	623	(146)	(79)	8,593
Identifiable segment assets	17,098	37,810	11,936	21,880	28,232	12,970	33,477	(27,254)	136,149
Capital expenditures	1,995	3,920	832	–	285	326	797	–	8,155
Depreciation and amortization	1,310	2,837	692	392	1,646	289	293	(168)	7,291
1997									
Revenues	25,874	51,939	19,481	2,207	6,681	7,751	3,639	–	117,572
Intersegment sales	1,680	3	531	200	1,243	65	257	(3,979)	–
Total revenues	27,554	51,942	20,012	2,407	7,924	7,816	3,896	(3,979)	117,572
Operating Profit (Loss)	1,716	3,368	342	586	246	284	(225)	(87)	6,230
Identifiable segment assets	15,003	38,699	11,000	17,867	24,434	11,174	23,823	(17,169)	124,831
Capital expenditures	1,885	4,501	601	–	193	255	635	(19)	8,051
Depreciation and amortization	1,160	2,288	687	168	1,459	306	324	(170)	6,222
1996									
Revenues	22,447	45,205	15,879	1,840	5,521	6,636	3,887	–	101,415
Intersegment sales	1,406	3	560	120	1,199	38	211	(3,537)	–
Total revenues	23,853	45,208	16,439	1,960	6,720	6,674	4,098	(3,537)	101,415
Operating Profit (Loss)	1,796	4,321	(61)	471	160	25	(561)	61	6,212
Identifiable segment assets	13,305	31,263	9,582	14,003	19,077	10,975	16,099	(13,011)	101,293
Capital expenditures	1,479	3,545	797	–	120	311	486	(17)	6,721
Depreciation and amortization	917	1,760	625	91	1,311	277	357	(46)	5,292

Capital expenditures for equipment on operating leases for 1998, 1997 and 1996 for Chrysler Financial Services amounted to € 2,935, € 1,211 and € 297, respectively, and for Services amounted to € 4,303, € 3,678 and € 3,161, respectively.

	1998	1997	1996
Income before financial income and income taxes	7,391	5,547	5,285
Not allocated:			
certain pension and postretirement benefit costs	688	721	770
merger costs	685	–	–
Allocated: certain financial income, net	(171)	(38)	157
Consolidated operating profit	8,593	6,230	6,212

Revenues	Germany	Other European countries	U.S.A.	Other American countries	Asia	Other countries	Consolidated
1998	24,918	23,550	65,300	11,519	4,311	2,184	131,782
1997	21,317	20,798	56,615	10,576	5,587	2,679	117,572
1996	20,316	16,954	49,485	7,152	5,058	2,450	101,415

Germany accounts for € 12,953 of long-term assets (1997: 12,040; 1996: 11,160), the U.S.A. for € 25,344 (1997: 22,632; 1996: 18,881) and other countries for € 11,309 (1997: 9,797; 1996: 5,808).

31. EARNINGS PER SHARE

Earnings per share are determined as follows:

	At December 31, 1998	1997	1996
Basic earnings per share:			
Income before extraordinary item	4,949	6,547	4,169
Less: preferred stock dividends	–	(1)	(3)
	4,949	6,546	4,166
Weighted average number of shares outstanding	959.3	949.3	981.6
Basic earnings per share	5.16	6.90	4.24
Non-recurring items[1]	0.42	(2.62)	–
Basic earnings per share excluding non-recurring items	5.58	4.28	4.24
Diluted earnings per share:			
Income before extraordinary item	4,949	6,547	4,169
Interest expense on convertible bonds and notes (net of tax)	20	19	4
	4,969	6,566	4,173
Weighted average number of shares outstanding	959.3	949.3	981.6
Dilutive effect on convertible bonds and notes	19.8	12.8	4.0
Shares issued on exercise of dilutive options	18.3	17.7	16.5
Shares purchased with proceeds of options	(11.8)	(13.5)	(11.9)
Shares applicable to convertible preferred stock	0.2	0.8	2.7
Shares contingently issuable	1.3	1.1	1.1
	987.1	968.2	994.0
Diluted earnings per share	5.04	6.78	4.20
Non-recurring items[1]	0.41	(2.57)	–
Diluted earnings per share excluding non-recurring items	5.45	4.21	4.20

[1]) Non-recurring items comprise merger costs of € 401 (net of tax) in 1998 and tax benefits relating to a special distribution and to a decrease of the valuation allowance of € 2,490 in 1997.

In 1997, convertible bonds issued in connection with the 1997 Stock Option Plan were not included in the computation of diluted earnings per share because the options' underlying target stock price was greater than the market price for DaimlerChrysler Ordinary Shares on December 31, 1997. For the same reason, convertible bonds issued in connection with the 1998 Stock Option Plan were not included in the computation at December 31, 1998.

Unexercised employee stock options to purchase 0.2 million and 0.1 million shares of DaimlerChrysler Ordinary Shares as of December 31, 1997 and 1996, respectively, were not included in the computations of diluted earnings per share because the options' exercise prices were greater than the average market price of DaimlerChrysler Ordinary Shares during the respective periods.

32. SUBSEQUENT EVENTS

In January 1999, DaimlerChrysler agreed to acquire ABB's 50% interest in Adtranz (see Note 3). The transaction is expected to be completed in the second quarter of 1999. Consummation of the merger is subject to various conditions, including among others, approval of certain governmental authorities.

DaimlerChrysler plans to institute a SAR plan for Daimler-Chrysler employees currently holding options under the 1997 and 1998 plans and offer each employee the opportunity to substitute an SAR in exchange for each option currently held. All terms and conditions will be identical to the stock options which are being replaced, except that the holder of the SAR will have the right to receive cash equal to the difference between the option exercise price and the stock price at the date of exercise. See also Note 21.

MEMBERS OF THE SUPERVISORY BOARD

Hilmar Kopper
Frankfurt am Main
Chairman of the Supervisory Board of Deutsche Bank AG

Chairman

Karl Feuerstein *
Mannheim
Chairman of the Corporate Works Council, DaimlerChrysler AG and DaimlerChrysler Group

Deputy Chairman

Robert E. Allen
Berkeley Heights
Retired Chairman of the Board and Chief Executive Officer of AT & T Corp.

Willi Böhm *)
Wörth
Member of the Works Council, Wörth Plant, DaimlerChrysler AG

Sir John P. Browne
London
Chief Executive Officer of BP Amoco p.l.c.

Manfred Göbels *)
Stuttgart
Chairman of the Senior Managers' Committee, DaimlerChrysler Group

Erich Klemm *)
Sindelfingen
Chairman of the Works Council, Sindelfingen Plant, DaimlerChrysler AG

Rudolf Kuda *)
Frankfurt am Main
Head of Department, Executive Council, German Metalworkers' Union

Robert J. Lanigan
Toledo
Chairman Emeritus of Owens-Illinois, Inc.

Helmut Lense *)
Stuttgart
Chairman of the Works Council, Untertürkheim Plant, DaimlerChrysler AG

Peter A. Magowan
San Francisco
Retired Chairman of the Board of Safeway, Inc., President and Managing General Partner of San Francisco Giants

Herbert Schiller *)
Frankfurt am Main
Chairman of the Corporate Works Council, DaimlerChrysler Services (debis) AG

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

Peter Schönfelder *)
Augsburg
Member of the Works Council, DaimlerChrysler Aerospace AG Augsburg Plant

G. Richard Thoman
Stamford
President and Chief Operating Officer of Xerox Corporation

Bernhard Walter
Frankfurt am Main
Chairman of the Board of Managing Director of Dresdner Bank AG

Lynton R. Wilson
Toronto
Chairman of the Board of BCE Inc.

Dr.-Ing. Mark Wössner
Gütersloh
Chairman of the Supervisory Board of Bertelsmann AG

Bernhard Wurl *)
Frankfurt am Main
IG Metall
Head of Department, Executive Council, German Metalworkers' Union

Stephen P. Yokich *)
Detroit
President of U.A.W., International Union United Automobile, Aerospace and Agricultural Implement Workers of America

Committees of the Supervisory Board:

Committee according § 27 Sec. 3 MitbestG (Codetermination Act)

Hilmar Kopper (Chairman)
Karl Feuerstein
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

Presidential Committee

Hilmar Kopper (Chairman)
Karl Feuerstein
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

Financial Audit Committee

Hilmar Kopper (Chairman)
Karl Feuerstein
Willi Böhm
Bernhard Walter

*) Employee elected representatives

Retired from the Supervisory Board:

Hans-Detlef Bösel
Langenfeld
Partner with individual liability of Sal. Oppenheim jr. & Cie. KGaA
retired at 11/12/1998

Joseph A. Califano, Jr.
New York
Chairman of the Board and President of National Center on Addiction and Substance Abuse at Columbia University
retired at 12/15/1998

Dr. Martin Kohlhaussen
Frankfurt
Management board spokesman of Commerzbank AG
retired at 12/15/1998

Matthias Graf von Krockow
Köln
Partner with individual liability of Sal. Oppenheim jr. & Cie. KGaA
retired at 11/12/1998

Helmut Zahn
Rösrath
Managing Director of Sal. Oppenheim jr. & Cie. KGaA
retired at 11/12/1998

The DaimlerChrysler International Advisory Board

The International Advisory Board ("IAB") of DaimlerChrysler advises the DaimlerChrysler Group on questions relating to global enconomic, technological and political developments and their effect on the business activities of the group. It supports the DaimlerChrysler Board of Management but is not responsible for making business decisions.

The IAB is composed of at least ten high ranking personalities from business, politics, and science. It meets approximately twice a year at varying locations worldwide. The last meeting took place in November 1998 in Washingon D.C., and it was the first after the merger of DaimlerChrysler.

The IAB was founded in 1995 as Daimler-Benz International Advisory Board. It is chaired by Victor Halberstadt, Professor at the Leiden University, The Netherlands. In addition to the exclusive group of experts there are guest speakers invited to address topics of current interest.

The meetings are private to encourage frank and open discussion. Other recent meetings were held in Stuttgart, Beijing, Sao Paulo, and New York.

DaimlerChrysler AG was incorporated on May 6, 1998 under the name Oppenheim Aktiengesellschaft with its corporate office in Düsseldorf and with a capital stock of DEM 100,000. Sole stockholder was initially Christopher Freiherr von Oppenheim and then Bankhaus Sal. Oppenheim jr. & Cie. KGaA. Matthias Graf von Krockow (Chairman), Hans-Detlef Bösel and Helmut Zahn were appointed as members of the first Supervisory Board of the company. Members of the Board of Management were Johannes Josef Maret and Dr. Thomas Sonnenberg.

By a resolution of the Annual General Meeting on June 17, 1998 the name was changed to DaimlerChrysler AG and the merger of Daimler-Benz Aktiengesellschaft and Chrysler Corporation was adopted as the object of the company. The corporation has been entered on the Commercial Register of the Stuttgart District Court since July 31, 1998.

The decisive steps for the merger in accordance with company law took place on November 12, 1998. On this day the capital stock of DaimlerChrysler AG was increased to DEM 4,956,353,515 by contribution of all stock in the Chrysler Corporation and more than 98% of the stock of Daimler-Benz Aktiengesellschaft. Daimler-Benz and Chrysler were thereby united in DaimlerChrysler AG. The share contribution had been preceded by a public exchange offer by DaimlerChrysler AG to the Daimler-Benz stockholders, by which the stockholders had been asked to transfer their stock to the Deutsche Bank AG, acting as trustees for the purpose of carrying out the capital increase. The Chrysler stock was first transferred to the Bank of New York by means of a reversed triangular merger in accordance with the law of the State of Delaware, USA. The Bank of New York then contributed the stock to DaimlerChrysler AG as an exchange agent. The Supervisory Board of DaimlerChrysler AG took part in all these measures in the manner prescribed by law and gave its approval in all those matters in which it was required to do so.

During the status procedure since November 12, 1998, The Supervisory Board consisted of Hilmar Kopper, Robert E. Allen, Sir John Browne, Peter A. Magowan, Robert J. Lanigan, Dr. Manfred Schneider, G. Richard Thoman, Bernhard Walter, Lynton R. Wilson, Dr. Mark Wössner, Dr. Martin Kohlhaussen and Joseph A. Califanio jr. Also with effect from November 12, 1998 Jürgen E. Schrempp and Robert J. Eaton were appointed Members of the Board of Management of DaimlerChrysler AG.

With the completion of the status procedure and the court-appointment of the employee representatives on December 15, 1998 the terms of office of Dr. Martin Kohlhaussen and Joseph A. Califano jr. came to an end. As representatives of the employees on the Supervisory Board Willi Böhm, Karl Feuerstein, Manfred Göbels, Erich Klemm, Rudolf Kuda, Helmut Lense, Herbert Schiller, Peter Schönfelder, Bernhard Wurl and Stephen P. Yokich were appointed by the court.

The Supervisory Board was constituted in its meeting of December 16, 1998 and elected Hilmar Kopper as Chairman and Karl Feuerstein as Vice Chairman. Furthermore, in accordance with Article 27 Section 3 of the German co-determination act the Mediating Committee and a Presidential Committee and a Financial Audit Committee were formed and the members of the committees were elected. The appointments of November 11, 1998 were annulled and Robert J. Eaton and Jürgen E. Schrempp were appointed Chairmen of the Board of Management of DaimlerChrysler AG effective from December 16, 1998 – Mr. Eaton until November 11, 2001 and Mr. Schrempp until December 15, 2003.

Manfred Bischoff, Eckhard Cordes, Theodor R. Cunningham, Thomas C. Gale, Manfred Gentz, James P. Holden, Jürgen Hubbert, Kurt J. Lauk, Klaus Mangold, Thomas W. Sidlik, Thomas T. Stallkamp, Heiner Tropitzsch, Gary C. Valade, Klaus-Dieter Vöhringer and Dieter Zetsche were appointed Members of the Board of Management with effect from December 16, 1998 for a term of five years – until December 15, 2003.

In this meeting the Supervisory Board concerned itself with the overall state of the company and amongst other things with the situation of Adtranz and the measures resulting therefrom.

The financial statements for 1998 of DaimlerChrysler AG, including the business review report, were audited by the audit firm, KPMG Deutsche Treuhand-Gesellschaft AG, Berlin and Frankfurt/Main, and certified without qualification.

This also applies to the consolidated financial statements according to US GAAP with the exception of the proportionate method of consolidation applied by DaimlerChrysler AG, which, however, is expressly permitted by the Securities and Exchange Commission (SEC). These are drawn up in DM and then converted into euro and supplemented by a consolidated status report and additional notes in accordance with Article 292a of the German Commercial Code (§ 292a HGB). In accordance with §292a HGB the present US GAAP consolidated financial statements grant exemption from the obligation to draw up statements under German law.

All financial statements and the appropriation of earnings proposed by the Board of Management and the auditors' report were submitted to the Supervisory Board. They have been inspected by the Financial Audit Committee and the Supervisory Board and discussed in the presence of the auditors. The Supervisory Board has declared itself in agreement with the result of the auditors' report and as a result of its own audit has determined that no objections are to be raised.
In its meeting of March 30, 1999 the Supervisory Board approved the consolidated financial statements for 1998 and

the financial statements of DaimlerChrysler AG for 1998 and thereby consented to the appropriation of earning proposed by the Board of Management.

The Supervisory Board and Board of Management of the now dissolved Daimler-Benz AG met in four ordinary and four extraordinary meetings in fiscal 1998 and concerned themselves with the state of the group, the strategic development of the business divisions and the business units, a special distribution of available stockholder's equity, upon which a levy of 50% corporation tax was imposed (VEK 50), as well as with detailed consideration of the merger with the Chrysler Corporation.

The Board of Management has kept the Supervisory Board fully informed in all meetings and also by means of the regular written reports on the business trend and the economic situation of the company. In addition, the Chairman of the Supervisory Board has kept himself constantly informed through individual discussions with the Board of Management.

In the spring meeting the corporate plan for the period 1998 – 2000 was presented to the Supervisory Board on schedule. This, including the investment, human resources and profit planning, was duly considered. In the extraordinary meeting of the Supervisory Board on March 10, 1998 the Supervisory Board dealt in detail with the distribution of the "VEK 50" shares and the subsequent capital increase. As a result of this discussion, the Supervisory Board and the Board of Management in the balance sheet approval meeting on April 3, 1998 recommended to the General Meeting a special distribution of DEM 20 for each share entitled to dividend and approved the corresponding capital increase.

In the extraordinary meeting of the Supervisory Board on May 6, 1998 the intended merger of Daimler-Benz AG and Chrysler Corporation was considered in the Supervisory Board for the first time. In a further extraordinary meeting of the Supervisory Board on May 14, 1998 the Supervisory Board approved the merger of Daimler-Benz AG and Chrysler Corporation.

With the conclusion of the Annual General Meeting on May 27, 1998 the term of office of the members of the Supervisory Board Prof. Hubert Curien, Jürgen Sarrazin, Dr. Roland Schelling and Prof. Dr. Johannes Semler came to an end. The Supervisory Board expresses its thanks – also in the name of the management – to the outgoing members for their many years of committed service.

In place of the outgoing members of the Supervisory Board the Annual General Meeting elected Sir John Browne, Jean-Marie Messier, Bernhard Walter and Dr. Mark Wössner to the Supervisory Board. Dr. Birgit Breuel, Dr. Michael Endres, Ulrich Hartmann, Dr. Martin Kohlhaussen, Hilmar Kopper and Dr. Manfred Schneider were re-elected. By May 6, 1998 the delegate meeting to elect the employee representatives had already taken place. All employee representatives were confirmed in their office as members of the Supervisory Board. The Supervisory Board of Daimler-Benz AG was constituted on May 27, 1998 and at the same time Hilmar Kopper was elected as its Chairman and Karl Feuerstein as its Vice Chairman and the committees were formed.

At its summer meeting on June 24, 1998 the Supervisory Board approved the acquisition of AMG Motoren- und Entwicklungs-GmbH and concerned itself once again in depth with the current status of the merger with Chrysler.

The extraordinary meeting of the Supervisory Board on July 31, 1998 served primarily to make preparations for the Extraordinary General Meeting on September 18, 1998. The Supervisory Board, together with the Board of Management, recommended the Extraordinary General Meeting to approve the merger with Chrysler on the basis of the Business Combination Agreement as well as to approve the merger contract between DaimlerChrysler AG and Daimler-Benz AG. Furthermore, the Supervisory Board approved the June 30, 1998 interim financial statements of Daimler-Benz AG.

Walter Riester resigned from the Supervisory Board on October 27, 1999 upon his appointment as Federal German Minister for Labor and Public Order. He, too, receives our express thanks.

The final meeting of the Supervisory Board of Daimler-Benz AG took place on November 4, 1998. The Supervisory Board considered among other matters the new structure of the Micro Compact Car Group and the capital measures involved, as well as the question of supplementing the Airbus A320 family with a new Airbus A318.

With the integration of Daimler-Benz AG into DaimlerChrysler AG on December 21, 1998, the mandate of the Supervisory Board of Daimler-Benz AG expired. We thank all members of the Supervisory Board of Daimler-Benz AG for their service and in particular for the commitment with which they saw through the merger of Daimler-Benz and Chrysler.

The management, the employees and the employee representatives have cooperated conscientiously and constructively this year. In particular, the merger of Daimler-Benz and Chrysler has made very heavy personal demands on many people in the company. The Supervisory Board expresses its thanks and appreciation to the Board of Management and the employees for the work they have undertaken and for their commitment.

Stuttgart-Möhringen, March 1999

The Supervisory Board

Hilmar Kopper
Chairman

MAJOR SUBSIDIARIES OF THE DAIMLERCHRYSLER GROUP

	Ownership[1] in %	Stockholders' Equity in Millions[2] of €	Net Income[3] in Millions of € 98	Net Income[3] in Millions of € 97	Revenues[3] in Millions of € 98	Revenues[3] in Millions of € 97	Employment at Year-End 98	Employment at Year-End 97
Passenger Cars Mercedes-Benz, smart								
Mercedes-Benz Italia S.p.a.A, Rome[4]	100.0	126	8.7	3.9	2,041	1,691	628	612
Mercedes-Benz (Switzerland) AG, Zurich	100.0	53	7.0	3.7	667	524	278	266
Micro Compact Car AG, Biel[4]	100.0	12	(141.1)	(151.6)	133	-	1,281	812
Mercedes-Benz Hellas S.A., Athens	100.0	19	4.5	1.7	158	127	150	144
Mercedes-Benz of North America, Inc., Montvale[4]	100.0	*[5]	*[5]	*[5]	6,775	4,939	1,352	1,263
Mercedes-Benz U.S. International, Inc., Tuscaloosa	100.0	*[5]	*[5]	*[5]	1,644	411	1,699	1,296
Mercedes-Benz India Ltd., Poona	86.0	42	(4.2)	(34.9)	44	64	344	578
Mercedes-Benz Japan Co. Ltd., Tokyo	100.0	147	8.7	21.4	1,498	1,587	403	405
Mercedes-Benz Group Indonesia, Jakarta[4]	95.0	14	(4.9)	6.2	27	240	1,225	1,715
Passenger Cars & Trucks Chrysler, Plymouth, Jeep, Dodge								
DaimlerChrysler Corporation, Auburn Hills	100.0	11,253	2,778	2,487	59,003	54,146	130,329	125,581
Chrysler Canada Ltd. Windsor	100.0	*[5]	*[5]	*[5]	11,850[6]	9,925[6]	17,125	15,714
Eurostar Automobilwerk GmbH & Co. KG, Graz	50.0	*[5]	*[5]	*[5]	750[6]	783[6]	1,555	1,675
Chrysler Pentastar Aviaton, Inc., Waterford	100.0	*[5]	*[5]	*[5]	76[6]	67[6]	240	187
Chrysler Transport, Inc., Detroit	100.0	*[5]	*[5]	*[5]	94[6]	87[6]	931	843
Chrysler de Mexico S.A. de C.V., Mexico City	100.0	*[5]	*[5]	*[5]	5,313[6]	5,037[6]	11,125	10,363
Chrysler Financial Company L.L.C., Southfield	100.0	*[5]	*[5]	*[5]	1,381[6]	1,130[6]	3,232	3,048
Chrysler Credit Canada Ltd., Missisauga	100.0	*[5]	*[5]	*[5]	399[6]	275[6]	102	180
Chrysler Insurance Company, Southfield	100.0	*[5]	*[5]	*[5]	142[6]	139[6]	179	177
Commercial Vehicles Mercedes-Benz/Freightliner/Sterling/Setra								
Evo Bus GmbH, Stuttgart[4]	100.0	200	29.3	41.3	1,685	1,538	9,724	9,250
Mercedes-Benz Lenkungen GmbH, Düsseldorf	100.0	29	(2.0)	3.4	252	232	1,459	1,354
Mercedes-Benz Espana S.A., Milan	100.0	190	80.6	12.3	2,252	1,847	4,477	4,615
Mercedes-Benz (United Kingdom) Ltd., Milton Keynes[4]	100.0	*[5]	*[5]	*[5]	3,080	2,631	1,034	982
Mercedes-Benz Nederland B.V., Utrecht[4]	100.0	*[5]	*[5]	*[5]	912	723	524	510
Mercedes-Benz Belgium S.A./N.V. Brussels	100.0	59	11.0	7.1	831	689	524	529
Mercedes-Benz France SAS, Rocquencourt[4]	100.0	*[5]	*[5]	*[5]	2,165	1,716	2,049	2,040
NAW Nutzfahrzeuge AG, Arbon	100.0	15	2.1	2.1	81	67	374	414
Mercedes-Benz Danmark AS Hillerod	100.0	14	0.2	2.1	247	252	304	269
Mercedes-Benz Sverige AG, Stockholm	100.0	14	0.1	(2.6)	297	239	271	243
Freightliner Corporation, Portland[4]	100.0	*[5]	*[5]	*[5]	6,805	4,717	14,870	10,556
Mercedes-Benz Mexico S.A. de G.V., Mexico D.F.[4]	100.0	*[5]	*[5]	*[5]	420	329	2,161	1,045
Mercedes-Benz do Brasil S.A., Sao Bernando do Campo	100.0	648	47.0	100.7	2,058	2,084	11,031	11,513
Mercedes-Benz Argentina, Buenes Aires[4]	100.0	165	27.5	6.9	649	551	1,689	1,834
Mercedes-Benz of South Africa (Pty.) Ltd. Pretoria[4]	100.0	59	18.1	(33.2)	864	1,070	3,418	3,800
Mercedes-Benz Türk A.S., Istanbul	55.6	101	50.1	70.8	662	857	3,696	3,666
Mercedes-Benz (Australia) Pty. Ltd., Mulgrave/Melbourne[4]	100.0	59	20.5	17.3	505	471	778	667

	Ownership [1] in %	Stockholders' Equity in Millions [2] of €	Net Income [3] in Millions of € 98	97	Revenues [3] in Millions of € 98	97	Employment at Year-End 98	97
Services								
DaimlerChrysler Services (debis) AG, Berlin	100.0	990	66.4	430.4	-	-	168	293
debis Systemhaus GmbH, Leinfelden-Echterdingen	100.0	182	6.0	9.3	483	431	1,086	1,560
debitel Kommunikationstechnik GmbH & Co. KG, Stuttgart	52.4	98	63.3	31.1	1,057	900	1,330	1,136
Mercedes-Benz Finanz GmbH, Stuttgart	100.0	405	88.0	114.0	181	163	641	627
Mercedes-Benz Finance Ltd., Milton Keynes	100.0	5)	5)	5)	130	292	188	215
Mercedes-Benz Credit Corporation, Norwalk	100.0	5)	5)	5)	1,869	2,247	1,570	1,067
Mercedes-Benz Finanziaria S.p.A., Rome	100.0	41	3.4	0.1	62	111	125	120
Aerospace								
DaimlerChrysler Aerospace AG, Munich	100.0	2,136	334.3	379.7	1,772	1,837	10,994	10,637
DaimlerChrysler Aerospace Airbus GmbH, Hamburg	100.0	866	(138.6)	(317.3)	2,970	2,394	14,645	14,087
Dornier GmbH, Friedrichshafen	57.6	205	32.8	32.5	347	321	1,933	1,960
Dornier Satellitensysteme GmbH, Munich	100.0	13	8.1	11.0	683	802	1,507	1,489
Eurocopter S.A., Marignane/France	75.0	596	46.9	17.2	1,179	1,036	6,198	5,903
Eurocopter Deutschland GmbH, Ottobrunn	100.0	97	(1.9)	2.5	451	406	3,206	2,995
MTU Motoren- und Turbinen-Union München GmbH, Munich	100.0	124	(154.5)	138.0	1,359	1,275	5,169	4,829
LFK-Lenkflugkörpersysteme GmbH, Munich	70.0	6	(17.9)	(10.2)	348	367	1,230	1,231
Nortel Dasa Network Systems GmbH & Co. KG, Friedrichshafen	50.0	71	20.9	13.3	351	238	953	816
Other Industrial Businesses [7]								
ABB Daimler-Benz Transportation GmbH, Berlin [8]	50.0	74	(390)	(254)	3,316	3,261	23,785	22,715
TEMIC TELEFUNKEN microelectronic GmbH, Heilbronn [8]	100.0	313	20	2	754	557	4,638	3,848
MTU Motoren- und Turbinen-Union GmbH, Friedrichshafen [8]	88.4	382	87	73	921	878	5,893	5,758
Regional Holding and Finance Companies								
DaimlerChrysler North America Holding Corp., New York	100.0	3.053	585	270	-	-	42	36
DaimlerChrysler Nederland Holding B.V., Utrecht	100.0	92	11	12	-	-	1	1
DaimlerChrysler Schweiz Holding AG, Zurich	100.0	208	55	10	-	-	3	2
DaimlerChrysler UK Holding plc., London	100.0	169	61	56	-	-	7	6
DaimlerChrysler France Holding S.A., Rocquencourt	100.0	197	45	18	-	-	3	1
DaimlerChrysler Coordination Center S.A/N.V., Brussels	100.0	361	17	11	-	-	21	21
DaimlerChrysler Espana Holding, Madrid S.A.	100.0	206	53	-	-	-	12	12

1) Relating to the respective parent company.
2) Stockholders' equity and net income/net income before 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) Included in the turnover of the preconsolidated financial statements.
7) Operating Profit instead of Net Income.
8) Amounts according to U.S. GAAP, ABB Daimler-Benz Transportation GmbH on the basis of Stand-Alone

F I V E - Y E A R - S U M M A R Y

– in millions of € –	94	95	96	97	98
From the statements of income					
Revenues	95,965	91,040	101,415	117,572	131,782
Personnel expenses	–	–	21,648	23,370	25,033
of which: wages and salaries	–	–	17,143	18,656	19,982
Research and development costs	–	–	5,751	6,501	6,693
Operating profit	–	–	6,212	6,230	8,593
Operating margin	–	–	6.1%	5.3%	6.5%
Financial results	–	–	408	633	763
Income before income taxes and extraordinary items	5,553	(1,171)	5,693	6,180	8,154
Net operating income	–	–	–	5,252	6,576
Net operating income as % of net assets (RONA)	–	–	–	10.2%	11.6%
Net income (loss)	3,499	(1,476)	4,022	6,547	4,820
Net income (loss) per share (€)	3.84	(1.40)	4.24	6.90	5.16
Diluted net income (loss) per share (€)	3.59	(1.36)	4.20	6.78	5.04
Net income per share before non-recurring items (€)	–	–	4.24	4.28	5.58
Diluted net income per share before non-recurring items (€)	–	–	4.20	4.21	5.45
Cash dividend	–	–	–	–	2,356
Cash dividend per share (€)	–	–	–	–	2.35
Cash dividend including tax credit [1] per share (€)	–	–	–	–	3.36
From the balance sheets:					
Property, plant and equipment	–	–	23,111	28,558	29,532
Leased equipment	–	–	7,905	11,092	14,662
Current assets	–	–	54,888	68,244	75,393
of which: liquid assets	–	–	12,851	17,325	19,073
Total assets	91,682	91,597	101,294	124,831	136,149
Stockholders' equity	23,316	19,488	22,355	27,960	30,367
of which: capital stock	–	–	–	2,391	2,561
Accrued liabilities	–	–	31,988	35,787	34,629
Liabilities	–	–	41,672	54,313	62,527
of which: financial liabilities	–	–	25,496	34,375	40,430
Debt to equity ratio	–	–	114%	123%	133%
Mid- and long-term provisions and liabilities	–	–	36,989	45,952	47,601
Short-term provisions and liabilities	–	–	41,950	50,919	58,181
current ratio	–	–	–	85%	79%
Net assets	–	–	–	–	56,852
Credit rating, long-term					
Standard & Poor's	–	–	–	–	A +
Moody's	–	–	–	–	A 1
From the statements of cash flows:					
Investments in property, plant and equipment	–	–	6,721	8,051	8,155
Investments in leased equipment	–	–	4,045	5,914	8,296
Depreciation on property, plant and equipment	–	–	4,427	5,683	4,937
Depreciation on leased equipment	–	–	1,159	1,456	1,972
Cash provided by operating activities	–	–	9,956	12,337	16,681
Cash used for investing activities	–	–	(8,745)	(14,530)	(23,445)
From the stock exchange:					
Share price at year-end Frankfurt (€)	–	–	–	–	83.60
New York (US $)	–	–	–	–	96 1/16
Average shares outstanding (in millions)	942.9	982.2	981.6	949.3	959.3
Average dilutive shares outstanding (in millions)	1,009.0	1,009.2	994.0	968.2	987.1
Average annual number of employees	–	–	419,758	421,661	433,939

[1]) For our stockholders who are taxable in Germany.

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I N F O R M A T I O N

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

The financial statements of DaimlerChryler Aktiengesellschaft prepared in accordance with German GAAP were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and an unqualified opinion was rendered thereon. These financial statements will be published in the Bundesanzeiger (federal registry) and filed at the County Court House in Stuttgart. The financial statements may be obtained from DaimlerChrysler free of charge.

The above publications can be requested from:

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The information can also be ordered by phone or fax under the following number:
(49) 711-1792287

Additional information on DaimlerChrysler is available on the internet at:
http://www.DaimlerChrysler.com.

Balance Sheet Press Conference:
March 31, 1999
10:00 am
Kultur- und Kongreßzentrum
(Congress Centre) Stuttgart, Germany

Corporate Presentation to Analysts:
March 31, 1999
3:00 pm
Stuttgart-Möhringen

Interim Report January to March:
April 28, 1999

Annual General Meeting:
May 18, 1999
10:00 am
Hanns-Martin-Schleyer-Halle
Stuttgart, Germany

Half-Year Balance Sheet Press Conference:
July 29, 1999
New York, U.S.A.

Corporate Presentation to Analysts:
July 29, 1999
New York, U.S.A.

Interim Report January to September:
End of October 1999

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