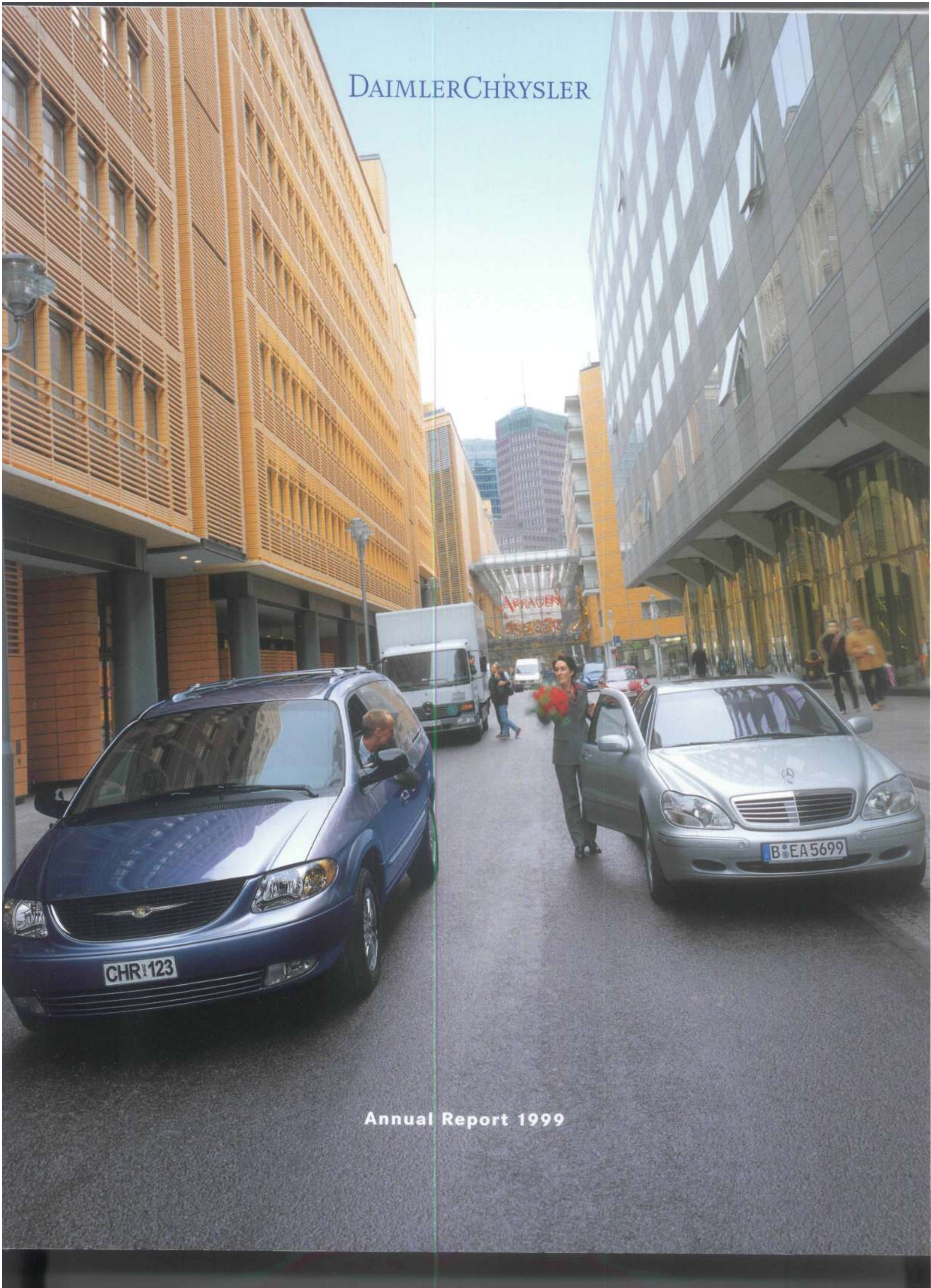



DaimlerChrysler

# Annual Report 1999

# Key Figures

| DaimlerChrysler Group | 99 in millions of US $[1]) | 99 in millions of € | 98 in millions of € | 97 in millions of € | 99:98 change in % |
|---|---|---|---|---|---|
| Revenues | 151,035 | 149,985 | 131,782 | 117,572 | +14 |
| European Union | 50,310 | 49,960 | 44,990 | 38,449 | +11 |
| of which Germany | 28,592 | 28,393 | 24,918 | 21,317 | +14 |
| NAFTA | 87,693 | 87,083 | 72,681 | 63,877 | +20 |
| of which USA | 78,651 | 78,104 | 65,300 | 56,615 | +20 |
| Other markets | 13,032 | 12,942 | 14,111 | 15,246 | -8 |
| Employees (at Year-End) | | 466,938 | 441,502 | 425,649 | +6 |
| Research and Development Costs | 7,628 | 7,575 | 6,693 | 6,501 | +13 |
| Investments in Property, Plant and Equipment | 9,536 | 9,470 | 8,155 | 8,051 | +16 |
| Cash Provided by Operating Activities | 18,149 | 18,023 | 16,681 | 12,337 | +8 |
| Operating Profit | 11,089 | 11,012 | 8,593 | 6,230 | +28 |
| Operating Profit Adjusted[2]) | 10,388 | 10,316 | 8,583 | - | +20 |
| Net Operating Income | 7,081 | 7,032 | 6,359 | 4,946 | +11 |
| Value Added | 2,155 | 2,140 | 1,753 | - | +22 |
| Net Income | 5,785 | 5,746 | 4,820 | 4,057[3]) | +19 |
| Per Share (in €/US$) | 5.77 | 5.73 | 5.03 | 4.28[3]) | +14 |
| Net Income Adjusted[2]) | 6,270 | 6,226 | 5,350 | 4,057 | +16 |
| Per Share (in €/US$)[2]) | 6.25 | 6.21 | 5.58 | 4.28 | +11 |
| Total Dividend | 2,375 | 2,358 | 2,356 | - | +0 |
| Dividend per Share (in €) | 2.37 | 2.35 | 2.35 | - | ±0 |

1) Rate of exchange: 1€ = US $1,0070 (based on the noon buying rate on Dec. 31, 1999).

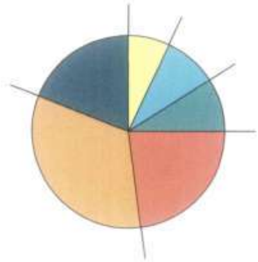
2) Excluding one-time effects, see page 60.

3) Excluding one-time positive tax effects, especially special distribution of €10.23 per share.

## MERCEDES-BENZ PASSENGER CARS & SMART

| | 99 in millions of US $ | 99 in millions of € | 98 in millions of € | 99:98 change in % |
|---|---|---|---|---|
| Operating Profit | 2,722 | 2,703 | 1,993 | +36 |
| Revenues | 38,367 | 38,100 | 32,587 | +17 |
| Investments in Property, Plant and Equipment | 2,244 | 2,228 | 1,995 | +12 |
| R&D | 2,057 | 2,043 | 1,930 | +6 |
| Unit Sales | | 1,080,267 | 922,795 | +17 |
| Employees *(Dec. 31)* | | 99,459 | 95,158 | +5 |

Percentage of Sales

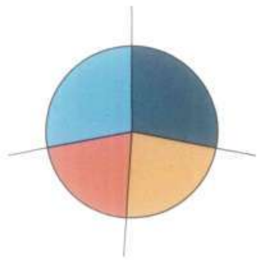


## CHRYSLER GROUP

*Chrysler*
*Jeep®*
*Dodge*
*Plymouth*

| | 99 in millions of US $ | 99 in millions of € | 98 in millions of € | 99:98 change in % |
|---|---|---|---|---|
| Operating Profit | 5,086 | 5,051 | 4,255 | +19 |
| Operating Profit Adjusted | 5,226 | 5,190 | 4,255 | +22 |
| Revenues | 64,534 | 64,085 | 56,412 | +14 |
| Investments in Property, Plant and Equipment | 5,261 | 5,224 | 3,920 | +33 |
| R&D | 2,014 | 2,000 | 1,695 | +18 |
| Unit Sales | | 3,229,270 | 3,093,716 | +4 |
| Employees *(Dec. 31)* | | 129,395 | 126,816 | +2 |

Percentage of Sales

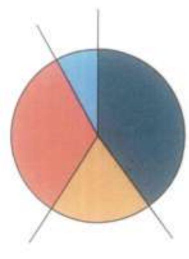


## COMMERCIAL VEHICLES

*Mercedes-Benz*
*Freightliner*
*Sterling*
*Setra*
*Thomas Built Buses*

| | 99 in millions of US $ | 99 in millions of € | 98 in millions of € | 99:98 change in % |
|---|---|---|---|---|
| Operating Profit | 1,075 | 1,067 | 946 | +13 |
| Revenues | 26,882 | 26,695 | 23,162 | +15 |
| Investments in Property, Plant and Equipment | 775 | 770 | 832 | -7 |
| R&D | 833 | 827 | 714 | +16 |
| Unit Sales | | 554,929 | 489,680 | +13 |
| Employees *(Dec. 31)* | | 90,082 | 89,711 | +0 |

Percentage of Sales



Note: Unconsolidated figures of the business.

- *A-Class* 19 %
- *C-Class, CLK, SLK* 33 %
- *E-Class* 23 %
- *S-Class/SL* 9 %
- *M-Class/G-Class* 9 %
- *smart* 7 %

## SERVICES

*Financial Services*
*IT Services*

| | 99 in millions of US $ | 99 in millions of € | 98[1] in millions of € | 99: 98 change in % |
|---|---|---|---|---|
| Operating Profit | 2,053 | 2,039 | 985 | +107 |
| Operating Profit Adjusted | 1,033 | 1,026 | 949 | +8 |
| Revenues | 13,023 | 12,932 | 9,987 | +29 |
| Investments in Property, Plant and Equipment | 326 | 324 | 285 | +14 |
| Employees *(Dec. 31)* | | 26,240 | 21,272 | +23 |

1) 1998: excluding Telecom Services.

- *Passenger Cars* 28 %
- *Trucks* 23 %
- *Minivans* 21 %
- *Sport-Utility Vehicles* 28 %

## AEROSPACE

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

| | 99 in millions of US $ | 99 in millions of € | 98 in millions of € | 99: 98 change in % |
|---|---|---|---|---|
| Operating Profit | 735 | 730 | 623 | +17 |
| Revenues | 9,255 | 9,191 | 8,770 | +5 |
| Investments in Property, Plant and Equipment | 338 | 336 | 326 | +3 |
| R&D | 2,019 | 2,005 | 2,047 | -2 |
| Employees *(Dec. 31)* | | 46,107 | 45,858 | +1 |

- *Vans* 40 %
- *Light and Medium Duty Trucks/Unimog* 19 %
- *Heavy Duty Trucks* 33 %
- *Buses* 8 %

## OTHERS

| | 99 in millions of US $ | 99 in millions of € | 98 in millions of € | 99: 98 change in % |
|---|---|---|---|---|
| Operating Profit | (402) | (399) | (130) | -206 |
| Operating Profit Adjusted | (223) | (221) | (224) | +1 |
| Revenues | 5,893 | 5,852 | 3,526 | +66 |
| Investments in Property, Plant and Equipment | 592 | 588 | 797 | -26 |
| R&D | 705 | 700 | 307 | +128 |
| Employees *(Dec. 31)* | | 41,522 | 28,945 | +43 |

DaimlerChrysler

## Our automotive brands

Mercedes-Benz

smart

CHRYSLER

Jeep

DODGE

FREIGHTLINER

STERLING

SETRA

Thomas BUILT BUSES

AMERICAN LaFRANCE

Mopar PARTS

POWERTRAIN

TEMIC

## Our non-automotive companies

debis
Services by DaimlerChrysler

DaimlerChrysler Aerospace

ADtranz

mtu FRIEDRICHSHAFEN

# FINANCIAL DIARY

**Balance Sheet Press Conference**
February 28, 2000
10:00 am
Kultur- und Kongreßzentrum
(Congress Centre) Stuttgart, Germany

**Corporate Presentation to Analysts**
February 28, 2000
2:30 pm
Stuttgart-Möhringen

**Annual Meeting**
April 19, 2000
10:00 am
International Congress Center Berlin, Germany

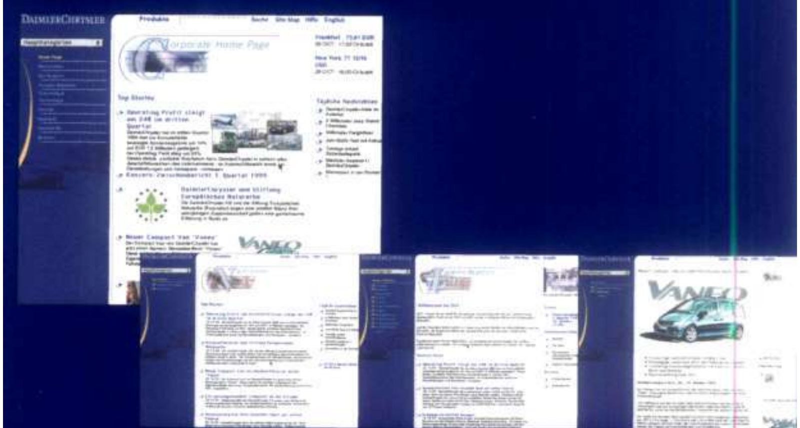
**Announcement Q1/3 Month Results**
April 19, 2000

**Interim Report Q2/Half Year Results**
End of July, 2000

**Interim Report Q3/9 Month Results**
End of October, 2000

**DaimlerChrysler online**

**www.DaimlerChrysler.com**



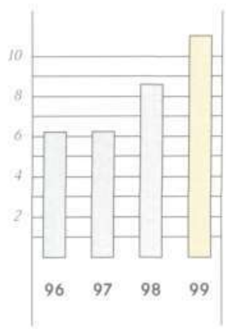
*Our strategy – delivering value for our shareholders:*

- *Through brand leadership in each of our markets.*
- *Through our pioneering technology and product innovation.*
- *Through the style and engineering excellence of our vehicles.*
- *Through the premium services we offer our customers.*
- *Through our global presence, which helps us secure the best employees and partners around the world.*

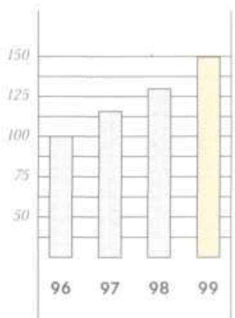
*It is the restless, entrepreneurial energy of our people that keeps DaimlerChrysler always ahead of the competition. And with innovative products and services we will delight our customers again and again.*

# turning potential into performance

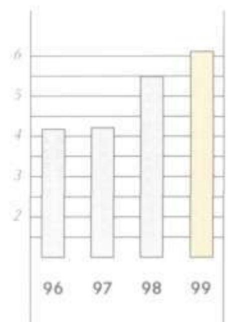
**Consolidated Operating Profit**
in billions of €




**Consolidated Revenues**
in billions of €




**Earnings per Share*)**
in €




*) Adjusted for one-time effects

# A Clear Direction: Strategies for Growth



Dear Shareholders and Employees:

At the start of the 20th century, your company's founders had just invented the automobile. We enter the 21st century a world leader in the automotive industry and one of the world's five most respected companies.[1)]

This report covers our first full year since the creation of DaimlerChrysler, and we are delighted to tell you that 1999 capped a hundred years of extraordinary progress. This was a year of record sales across our brands, of expanded market shares, technological innovations, and major advances in the way we design and build our vehicles, serve our customers and manage our business portfolio. All of our major automotive brands – Mercedes-Benz, Chrysler, Jeep, Dodge, Freightliner, Sterling, Setra – as well as our services company debis and Dasa, our aerospace division, had a great year.

Profit growth once again outstripped revenue growth by more than we had anticipated. Net income is 19% up on 1998, and we have proposed a dividend of €2.35 per share5 Adjusted net income also rose by 16% to €6.2 billion (US $6.3 billion). This made us one of the most profitable of the major automotive groups in 1999.

- *Revenues up 14% to €150 billion (US $151 billion)*
- *Operating profit* up 20% to €10.3 billion (US $10.4 billion)*
- *Net income* up 16% to €6.2 billion (US $6.3 billion)*
- *Earnings per share* up 11% to €6.21 (US $6.25)*
- *We sold almost 4.9 million cars, light trucks and commercial vehicles – and once again increased market share in virtually every segment in which we operate – despite intense competition.*
- *We added €2.1 (US $2.2) billion in value in 1999 (operating profit less our cost of capital)*

**Excluding one-time effects.*

This year of record performance by DaimlerChrysler was not evident in the DCX share price. This, in our view, is largely a reflection of transformations in the global economy. Telecommunications and IT growth stocks grabbed the attention of investors, while value stocks such as those of the automotive industry, lagged behind. Investors were also concerned about a possible slowdown in the US market. So we know that our current share price does not properly reflect the high potential of this great company. And we are working to therefore realize our true value.

However, as you will see throughout this Annual Report, when it comes to assessing the value of this company, we do more than insist on its potential. We are constantly turning that potential into performance. And in 1999 we achieved a level of performance that demonstrates what we believe real value is all about.

1) *Financial Times, November 1999*

*Robert J. Eaton, Jürgen E. Schrempp*



For that, we owe a great deal to our people all around the world, who can be proud of a fine achievement in a difficult year. Working together has been more demanding than we anticipated. Integration projects made heavy calls on our time and energies. But we got on with our day-to-day business, kept our eye on the ball, and simultaneously set in motion a process of profound change. It is to everyone's credit that we accomplished so much – the best year ever in our combined history.

## PILLARS OF PROFITABILITY

In particular, we accomplished four points in your company this year – each one will support our long-term profitable growth. We completed our integration, set up two councils to fast-track our best ideas, unlocked new value for shareholders in our non-automotive businesses, and put in place a strategy for our future growth.

Let's look at each of those accomplishments in a little more detail.

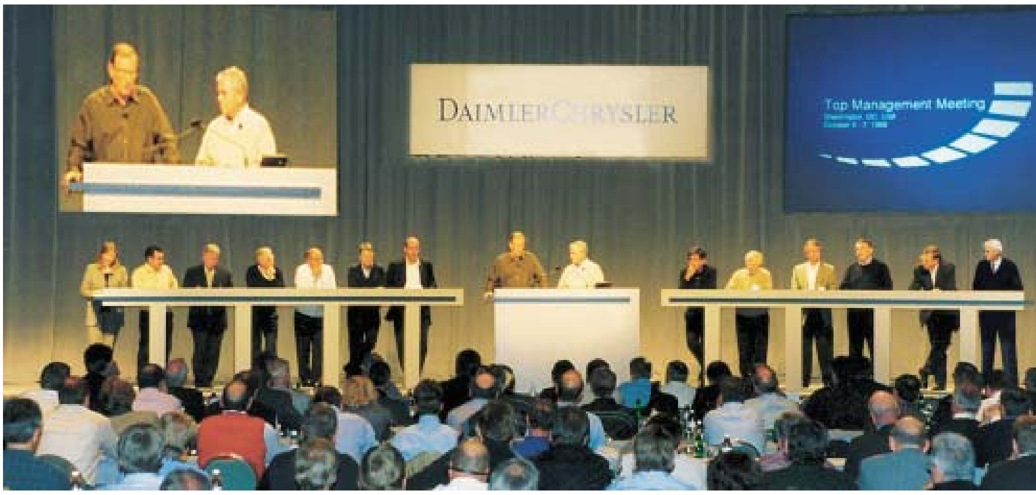
First, we completed our program for the integration of the new company in just one year, instead of two as originally projected. The effect of the integration process: We are now one company.

Today, integrated functional departments, and shared ideas and technologies, are significantly improving everything we make, the way we do business, and the way we serve our customers – as this report shows.

And as importantly, these integration benefits are helping us to become more efficient. In 1999 we made €1.4 (US $1.4) billion in synergies.

Secondly, we restructured our organization by establishing three brand-focused automotive divisions, backed by an Automotive Council for product design, engineering and production, and a Sales and Marketing Council for brand development and strengthening our sales organization, both of which report directly to the Board of Management. The councils will preserve the most successful aspects of our integration and sustain a process of continuous transformation and reinvention at DaimlerChrysler – principally by fast-tracking good ideas.

Thirdly, we restructured our business portfolio as part of our on-going strategy to unlock value for our shareholders from our non-automotive businesses. To this end, we created the world's third largest aerospace group (after Boeing and Lockheed) by negotiating the three-way merger of DaimlerChrysler Aerospace, Aerospatiale-Matra and CASA, to form the European Aeronautic Defence and Space Company, EADS. This deal leaves us with 30% of EADS – the largest single shareholding.




*Top Team Talks: The joint chairmen address senior management.*



We also sold debitel, our mobile telephone subsidiary, and the gain from that amounted to €1.1 billion (US $1.1 billion) – from an initial investment of a mere €9 million nine years ago.

This restructuring of our non-automotive business has enabled us to free up capital for attractive new investments and this process will be continued.

And while Adtranz, our rail systems subsidiary, experienced difficulties in 1999, it retained its global leadership in the rail systems market and we introduced a major program for its recovery, which we expect will return it to profitability in 2000.

Moreover, through alliances, there are excellent opportunities for us to grow our investments in both Temic and MTU.

Fourthly, and most importantly, we put in place a number of core strategies that are already charting our course for future growth. Simply stated, they come down to this: delivering value added for our shareholders through brand leadership in our markets.

## THE FUTURE OF OUR BUSINESS – AND THE BUSINESS OF OUR FUTURE

The automotive business is no longer just about moving metal. It's about moving customers – in both senses of the word. Today's customers assume quality and reliability as given. What they demand now are styling, power, status, lifestyle and personalized service. They want their dream car, or truck. They want it tailored to their needs and tastes. They expect us to deliver that, and they expect us to surprise them, and delight them.

New consumer demands and dramatic advances in automotive technology (a field where DaimlerChrysler always leads the pack) mean that the way we design and make vehicles will change faster and more radically in the next ten years than it did in the past 50.

At the same time, the way we sell our vehicles and serve our customers will also be transformed. And the Internet will play a huge part in these changes.

In this highly competitive market place, quality and speed-to-market have been reduced to entry-level requirements. We will be delivering profitable growth and value-added to our shareholders by exploiting the power and fascination that our brands represent in the market, and leveraging to the hilt our technological and design superiority.

## WHAT WE MEAN BY BRAND LEADERSHIP – AND WHAT BRAND LEADERSHIP WILL MEAN FOR OUR CUSTOMERS

We are once again redefining what represents the greatest value for our customers. And, in partnership with our suppliers, we are reconfiguring our business to deliver more of this value in our chosen market segments. Succeeding in this means we can raise customer expectations beyond the reach of our competitors. It's that simple.

Our portfolio of brands and products, and our record of innovation, are unmatched. We have 60 new models in the pipeline. We lead in the luxury car segments. We defined the minivan, and will continue to do so. We now lead in SUVs, and outside Asia we are dominant in heavy trucks all over the world.

Through our technological leadership we gave the automotive industry the airbag, ABS braking, and our unique electronic stability technology. We lead again now with Active Body Control, drive-by-wire, and the fuel cell – to name a few. No other company has done more to lead and shape this industry.

And it's not just the big, leading-edge developments that count; there are also the many smaller ideas that together make a big difference. Last year alone, we registered 2,000 patents and introduced 85 major new developments into our passenger and commercial vehicles.

What's more, of the 500 projects currently under way in our Research & Technology division, more than half will in the near future find their way into two or more of our business units. In other words, the cutting edge has become our stock-in-trade, and a powerful part of our competitive advantage.

But product and technology leadership is not enough. For us the vehicle of tomorrow has become both entry point and centerpiece in a customer experience that begins with exhilarating choice and fascinating automotive features. That continues with the fun of driving. And endures through faultless service across an ever-widening range of customer needs, all met by a service network totally dedicated to customer support.

We intend to make that moment of first contact with our customers the beginning of a total relationship. We have to understand them completely. We have to get them excited. Offer them real choice. Solve their problems. Give them fast, hassle-free backup and service. Always be there for them – on the phone, on the Net, on the floor of the dealership – wherever and whenever they need us. Give them the best.

Our business is more than just our products and services. It's about an experience. A total customer experience delivered through the entire range of products and services of each of our car, truck and commercial vehicle brands, as well as debis, Dasa and Adtranz.

We are not there yet, but our plans for continued, steady improvement will drive our position of leadership in the automotive industry as we advance into the 21st century.

It is, above all, the irrepressibly entrepreneurial spirit of this company - our passion for making great cars and trucks which stems from our dual heritage - that will enable us to accomplish this.

## 2000 AND BEYOND

This year we will again face strong competition.

In North America, early indications suggest the level of economic activity is likely to plateau in 2000 following another year of rapid growth in 1999. In contrast, we expect a gradual pick-up in economic activity in Europe, except in the United Kingdom. In Japan, further slow recovery is expected, with continued faster recovery in South East Asia. The outlook for Latin America varies widely.

This suggests that competition will intensify in all our markets.

Nevertheless, our well-balanced spread of revenues between Europe and North America, gives us the flexibility to respond to market developments more quickly than our competitors. We have the flexibility and resolve to ensure that revenues and profits will continue to be strong again in 2000.

Within our overall strategy, we will focus our efforts this year in several key areas:

Already we are setting the pace in sustainable mobility – that most vital of tomorrow's automotive technologies – with the work we are doing in the development of fuel cell engines and more efficient internal combustion engines. Our efforts in the development of lightweight materials and traffic-assist systems also support this.

The Internet and information technology are transforming our lives, and we have long since integrated these value drivers into our business. We have already done pioneering work. We showed the world the first vehicle with direct Internet access in 1997. We can deliver an on-line vehicle financing decision within 15 minutes. And our supplier program has been driven through a dedicated Internet market place for seven years. In fact, last year, 81% of our suppliers voted DaimlerChrysler the best company for communication in supply management.

In short, e-business has been an important part of the program of our divisions, company-wide, for several years. In that time we have also been building the product and service infrastructure that enables us to deliver on the promise of the Internet. Now we are co-ordinating those initiatives. And what is taking shape is an efficient, user-friendly, business-to-business and business-to-customer relationship together with our strong dealers, that already far outstrips what our competitors have achieved.

Principally, of course, our business is to build the world's best cars and trucks, to support the people who buy them with the world's best automotive services, and to build the best internal processes in the industry. In the final analysis, technology remains a means to an end, not an end in itself.

But it is the people of DaimlerChrysler who will make the difference – their energy, inventiveness, dedication and professionalism, and sheer passion for what they do. Our strategy is to retain, recruit and develop people with outstanding skills and attitudes, all around the world, through benchmark human resources management. More than two thirds of our employees share in our profits, either through stock ownership or performance-related bonuses. Very few large companies have achieved that level of profit participation. Perhaps that's why we have one of the lowest staff turnovers in our industry and are rated as one of the world's most attractive employers. It also goes to the heart of our entrepreneurial ethic.

The integration has given our management new strength. We have learned to cope with cultural differences. We can make decisions faster, we are exchanging ideas faster, and we have greater flexibility now when it comes to making mergers and alliances work across national and regional borders.

The key to all this is globalization. Profitably expanding our operations around the world will enable us to leverage our technological advantage more profitably across a widening base of sales, and use our purchasing power across a widening supply chain, making it the best and most cost-efficient in the world. Part of globalization is our deep concern for the people and regions we work and produce at. We are a good corporate citizen wherever we operate.

We drove and will drive the consolidation process in the world-wide automotive industrie, we will seek further world-wide growth in the automotive business and lead this development into the future.

At the end of the day, our job as leaders is to anticipate the future and to make it happen to the best advantage of you, the shareholder. We are doing that by concentrating the considerable resources of this company in support of our automotive-, our non-automotive divisions and our services. We are leveraging our leadership in research and technology, by finding the world's best people and giving rein to their knowledge and their genius for style, by nurturing our tradition of engineering excellence, expanding our global marketing reach, and optimizing our business portfolio, our financial muscle and our purchasing power.

We have seen the future ... and it is us.

Robert J. Eaton

Jürgen E. Schrempp

# T H E   B O A R D   O F   M A N A G E M E N T

**MANFRED BISCHOFF**
*Aerospace & Industrial Non-Automotive*
*Appointed until 2003*

**ECKHARD CORDES**
*Corporate Development & IT-Management*
*Appointed until 2003*

**GÜNTHER FLEIG**
*Human Resources & Labor Relations*
*Director*
*Appointed until 2004*


**THOMAS C. GALE**
*Product Development,*
*Design Chrysler Group & Passenger Cars*
*Operations*
*Appointed until 2003*

**MANFRED GENTZ**
*Finance & Controlling*
*Appointed until 2003*

**JAMES P. HOLDEN**
*Chrysler Group*
*Appointed until 2003*

**Retired from the Board of Management:**
Theodor R. Cunningham, September 30, 1999
Kurt J. Lauk, September 30, 1999
Thomas T. Stallkamp, September 30, 1999
Heiner Tropitzsch, September 30, 1999

**ROBERT J. EATON**
*Chairman of the Board of Management*
*Until March 31, 2000*

**JÜRGEN E. SCHREMPP**
*Chairman of the Board of Management*
*Appointed until 2003*

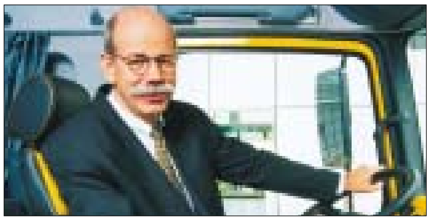
**JÜRGEN HUBBERT**
*Mercedes-Benz Passenger Cars & smart*
*Appointed until 2003*

**KLAUS MANGOLD**
*Services (debis)*
*Appointed until 2003*

**THOMAS W. SIDLIK**
*Procurement & Supply*
*Chrysler Group & Jeep Operations*
*Appointed until 2003*

**GARY C. VALADE**
*Global Procurement & Supply*
*Appointed until 2003*

**KLAUS-DIETER VÖHRINGER**
*Research & Technology*
*Appointed until 2003*



**DIETER ZETSCHE**
*Commercial Vehicles*
*Appointed until 2003*

# Front runner

**Since its formation in November 1998, DaimlerChrysler has driven through a transformation that is turning potential into performance and creating dramatic new opportunities for growth. Writer Paul Bell, the author of this special chapter, calls the process 'a quantum leap into the automotive future'.**



He comes in fast. Dark-haired and compact, with an economy of movement and language that suggest physical power and an astonishingly quick mind, Dirk Walliser, who drives the business program of DaimlerChrysler's development of fuel-cell technology, sits down at a table in the main cafeteria at the corporation's Stuttgart headquarters – and reinvents his world.

How engines will work. Which technology factors will differentiate the way cars perform and navigate. The way people will move about in the cities of tomorrow. Why the company he works for, which led the world into the 20th century with the first automobile, is doing it again in the 21st century – commanding a powerful array of brands, new products, technological innovations, and all the knowledge its workers, researchers, engineers and managers are ceaselessly accumulating and leveraging throughout the Group.

What makes Walliser's exposition so compelling is that, though a scientist to his fingertips, he is even more passionate in his conviction that the company's quest to maintain technological leadership and define global industry standards should be driven by what these contribute to the profitable growth of the company and the leading position of its brands. By the time Walliser has finished, the cafeteria is empty again. The breakfast crowd has come, eaten and gone but Walliser has not noticed.

**PEOPLE AT WORK.** *The Eurostar/SFT assembly lines in Graz, Austria, which run five different car manufacturing platforms that consume 300 truckloads of parts a day. Last May, the Graz team successfully integrated production of the Mercedes-Benz M-Class into a line formerly devoted to the Jeep Grand Cherokee – with no loss of production to Jeep. The job was done in five months, nine months faster than had initially been projected. The line's flexibility allows vehicles to be produced profitably at lower volumes, and the line itself is a classic example of how integration benefits are being realized company-wide.*



**“We’ll be offering a total experience to the customer, and maximizing the total value of our sales both by car and by customer.”**

As he rises to go, the interview suddenly turns personal. What are you by training? An engineer?”
“A physicist,” he says. “I used to study the stars.”
“Stars to cars,” the interviewer observes, “that’s a big change. What brought you to DaimlerChrysler?”

But the answer is obvious. Walliser has a dream, but he dreams in real time about a future he can reach out and touch – the advancing technologies, the shifting demographics, the changing markets, the testing of new shareholder imperatives, all converging to shape the automotive industry of five, ten and twenty years from now. In his own field, Walliser reckons, DaimlerChrysler is already two to three years ahead of its closest rival.

“This work, this company, are reality,” replies Walliser as he turns for the door. “I wanted to be somewhere where I could help make the future happen.”

It was an inspired choice. Since its formation in November 1998, DaimlerChrysler has driven through a transformation process that – for this new ‘whole’, much greater than the sum of its two formerly independent parts – is no less than a quantum leap into the automotive future.

**PERPETUAL REINVENTION.** Across the Atlantic, that same sense and spirit are placed in a strategic context by Steve Torok, repsonsible for sales and marketing operations and business strategy: “There’s a tendency to consider the auto industry as a mature industry because unit sales growth is generally in the two or three percent range globally. What’s missed is that the units being sold are undergoing radical, almost revolutionary changes in technology, and that, even though unit sales don’t change much, their composition, and the qualities of the products, are changing dramatically.

So we don’t see ourselves as operating in a mature business, we see it as a business that is in a perpetual cycle of reinvention. The trick is to understand where the new segments are emerging. And one of the strengths of this company – and I believe this is a core cultural strength on both sides of the Atlantic – is the desire to identify new, undeveloped market segments, and the willingness to invent products in them.” Such desire and willingness are being realized in the almost 60 new models that will come to market between 2000 and 2005. But that’s just the start. New forces are reshaping the competitive landscape for traditional automakers. In the world’s two biggest markets, the United States and Europe, more than 70% of automotive revenues and profits are now derived from an ever lengthening chain of new, highly profitable downstream services – like rentals, financing, leasing, fleet management, telematics, servicing, insurance, legal support for new and used vehicles. All this is part of the growing business of debis, the services company of DaimlerChrysler, which provides its provides their customers worldwide with sophisticated, value-adding financial services and information technology services tailored to individual business requirements. These services, as well as the advent of e-business to automobile sales, and the entry of the Internet into the vehicle itself, are reshaping the customer’s relationship with the car, and the manufacturer’s relationship with the customer. Driving a car out of the showroom is no longer the end of the relationship. It’s just the beginning.

This is the downstream side of what the industry calls the automotive value chain – that longer and, ultimately, far more profitable part of the life cycle of a car or truck. It is the task of Alexander Koesling, director of Corporate Strategy, to coordinate DaimlerChrysler’s strategic thinking on how to turn potential into performance and add value to the company through profitable growth at appropriate points along that chain. In the future, says Koesling, buying or leasing a vehicle from DaimlerChrysler will simply be the customer’s entry-point to a string of services and support. That string will extend through the lifecycle of the vehicle, from purchase to disposal, and its elements will build a relationship between manufacturer and customer that outlasts any one vehicle the latter may use. “We’ll be offering a total experience to the customer, and maximizing the total value of our sales both by car and by customer,” says Koesling.

And Torok: “To retain a differential pricing ability, we need a long-term relationship with the customer that drives revenue and profits all the way through the ownership cycle. So we are actively reinventing ourselves ... as a more pervasive transportation company in which the automobile is one component alongside an array of aftermarket items - service contracts, telematic services, affinity tie-ins... That’s where e-commerce comes in. It’s all part of an expanded value chain in which you leverage your position in one market to build linkages into other sources of value.”



**PROPULSION SYSTEM OF THE FUTURE.** *Inside the workshops and laboratories of the Fuel Cell Project Group facility at Nabern Technology Park, Stuttgart, scientists and engineers are designing engines that run on the chemical interaction of hydrogen and oxygen, which produces electricity to power the vehicle, and emits pure water vapor. In an era of global warming, atmospheric pollution and long-term fossil-fuel scarcity, DaimlerChrysler fuel-cell technology is a guarantor of sustainable mobility in the future, and the company is moving rapidly towards mass production for small cars and buses.*



For example, together with debis IT Services as its software partner, the Mercedes-Benz Sales and Marketing Organization is working on the Digital Sales Channel project to develop an e-commerce platform for vehicle sales at DaimlerChrysler. DSC integrates various features of vehicle sales (initiation of a new or used vehicle sale, leasing, financing, insurance, part-exchange etc.) and also includes customer-relations elements.

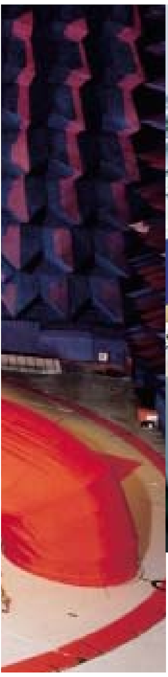
Moreover, says Torok, the company can now pursue the value chain and apply its cutting-edge automotive technologies to much greater effect because development costs can be spread over the combined sales of the corporate brands. In the future, this will show up as another quantum leap in the company's competitive advantage.

**CALIFORNIA DREAMING.** The future always seems closer in California, land of the leading edge. Here, DaimlerChrysler researchers are engaged in several major projects, partnering with other leading automakers, fuel providers and power-generation companies in the development of fuel cell technology; analyzing the start-up culture of Silicon Valley; considering the impact of the San Francisco lifestyle on the way its people live, work and innovate.

And that's just California! Be it fuel cell or information technology in Palo Alto, telematics in Berlin, drive systems in Stuttgart, communications in Bangalore, India, electronics in Shanghai, or vehicle dynamics at the Chelsea Proving Grounds in Michigan, DaimlerChrysler surveys and creates the future from a global vantage point, researching, designing, and manufacturing vehicles, systems and services that will define transport in tomorrow's world.

Nowhere is the view from that global vantage point more acutely appreciated or applied than in the offices – in Palo Alto, Berlin and Kyoto, Japan – of Eckard Minx's interdisciplinary Society and Technology Research Group (STRG).
Its task is to provide an early-warning system for the DaimlerChrysler Board of Management on changes in the business and social environment, and customized research to individual clients within the group. STRG monitors consumer behavior, investigates knowledge/information trends, transportation and patterns of human settlement around the globe, and takes a view that currently extends as far as 2020. It's an important link in DaimlerChrysler's quality chain. Quality companies need quality information.

**PUTTING THE BEST TO THE TEST.** *Vehicle development and testing facilities in Auburn Hills (above), Papenburg (above right) and Sindelfingen. In both Germany and the US, the company has established facilities and practices that are bringing engineers and designers into a single marketplace where they can more easily exchange information, test new ideas, and take into development those that survive their rigorous testing. Supported by digital information and flexible human resource allocation, the company is rapidly shortening its product development times – a vital element in the company's competitive armory.*




The Chelsea Proving Grounds is another, though quite different, link. Based at Chelsea is Michelle O'Connor Martindale, one of a handful of women in the automotive industry now pursuing fast-track careers in vehicle dynamics. She, too, made her own inspired choice. In an aircraft between DaimlerChrysler's twin capitals, Detroit and Stuttgart, 27-year-old Martindale describes the pure pleasure of her work. Each weekday, she thunders round the Chelsea test track, testing the soon-to-be-unveiled new Chrysler coupe, another in the long line of "concept cars" that Board of Management member Tom Gale calls "icons". Says Gale: "These are cars and projects that, from the company's earliest days, have dazzled the industry. When Chrysler was down on its luck in the hard days of the Eighties, they became rallying points for the pride and energy of the company its people wanted it to be. Cars like the Portofino or the Viper – windows into the future of automotive design, and also catalysts for – and symbols of - deep corporate change and inspiration." For Tom Gale and Auburn Hills, the concept car is the point where tomorrow's vision, today's technology, and that deep sense of the classic that comes down from the past, meet the road on four wheels.

Martindale's devotion to cars is virtually genetic – her father and grandfather were Detroit autoworkers. But it was she who first had the good sense to head for Auburn Hills – with the first college degree her motor-mad Michigan family ever had.

For people like Dirk Walliser, the scientist-strategist with his passion for a life-changing technology, and Michelle Martindale, the test-engineer daughter of an Irish autoworker with her passion for break-away design, the world of DaimlerChrysler is a place of unique opportunity and robust competitive challenge. For the people of DaimlerChrysler, that world, with its ever more complex and rapidly changing markets, cultures and technologies, is also the subject of intense curiosity. Their curiosity, their passion for cars, their determination to be first and best in whatever they do, are

**"Every euro, every dollar that we spend on R & D goes to providing our customers with a safer, more comfortable and more ecologically friendly ride. These innovations are a key to securing and consolidating the business success of this company."**

attitudes and ambitions that are integral to the company's position as a market leader. Klaus-Dieter Vöhringer, who heads the company's research and technology thrust, encapsulates the role innovation plays in the company's overall strategy for brand leadership: "Every euro, every dollar that we spend on R&D goes to providing our customers with a safer, more comfortable and more ecologically friendly ride. These innovations are a key to securing and consolidating the business success of this company."

What makes this effort so awesome is the sheer scale of human and financial resources the company is able to deploy. Here are the hard numbers of DaimlerChrysler's ever-tightening grip on the future. In terms of input, one in every 12 employees (i.e. about 40,000 people) is engaged in research and development, and the company has embarked on a three-year spending program for R&D and investments in plant, property and equipment, to which it has committed €50 billion, a budget equivalent to the GDP of several developing countries. Output is equally staggering. Last year, throughout the group, there were 466 different research projects under way. In that time, 70 of those projects were completed and their results transferred to the company's internal "customers" for application in products and services; 85 new developments were unveiled for passenger car and commercial vehicle manufacturing; and almost 2,000 patents were registered to protect the group's competitive edge.

**MOBILITY MEGATRENDS.** In the future that DaimlerChrysler anticipates, its managers, futurologists and researchers have identified several 'megatrends' they believe will be critical to the company's performance and value.

"The first," says Klaus-Dieter Vöhringer, "is sustainable mobility. We expect fuel to become scarcer in the not-too-distant future. Moreover, the automobile is still an environmental factor – there are ecological implications to the now almost unlimited mobility of humans and goods."

That means developing vehicles that use less fuel. Like the smart cdi for traffic-congested, emission-sensitive Europe. Powered by a direct injection turbocharged diesel engine, the smart achieves a combination of high output and low consumption. Or the Dodge Durango hybrid concept for the US, which provides a boost in fuel economy in the popular sport-utilities which are big gas guzzlers. The new Durango prototype has two power trains: one a conventional engine that drives the back wheels; the other an auxiliary electric motor that drives the front wheels and stores electrical energy for distribution during braking and acceleration. Net effect: a 20% cut in the fuel consumption of a 3.9-liter V-6 engine with the power of a 5.9-litre V-8.

At the further edge of this quest for sustainable mobility is the fuel cell. Ferdinand Panik, head of DaimlerChrysler's fuel cell project, believes this technology will initiate a change in mobility that will "go far beyond normal innovation", and could revolutionize propulsion in the way the microchip revolutionized IT. It's a potent index of the fuel cell's importance that 60 companies, including eight of the world's top ten revenue earners, are presently at work on it. But DaimlerChrysler has claimed the edge. In five years its engineers have reduced the weight of their drive system, and extended their test vehicles' power and range, dramatically.

Propulsion aside, the fuel cell provides an on-board power supply for the growing array of electronics revolutionizing the driving experience inside, and around, the vehicle. And here's another megatrend. While the automobile's crucial components are still the chassis, drive train and running gear, electronics and sensor systems are becoming increasingly important. "The future," says Vöhringer, "belongs to drive-by-wire vehicles that do away with the steering wheel, accelerator and brake pedals, while new electronic assistance systems will help the driver in critical situations or take over monotonous routine tasks during normal operation." For example, DaimlerChrysler engineers are developing autonomous on-board systems comprising sensors connected by 'neural networks' capable of recognizing patterns and signals around the car – a traffic sign, a pedestrian, a potentially dangerous situation – and enhancing the driver's response and the general safety of the vehicle.


**VISIONS OF THE FUTURE.** *Spectators at LAB.01, the DaimlerChrysler Project for EXPO 2000 (the 153-day world exposition opening in Hanover on June 1), on a pre-visit to Barcelona last year as part of a tour of six European cities. The project LAB.01, an undertaking by the company's communication division, offers young people an interactive experience with future technologies, that is meant to stimulate their vision of tomorrow's world. Typically, its displays, which are spread over 2,000 m$^2$, are anything but passive - the exhibition has attracted large crowds and widespread publicity everywhere it has been seen. More than 100,000 visitors and high media interest proved the success of the extraordinary conception.*



This second megatrend segues into a third, as mobility and electronics meet modern information and communications technologies. While this meeting occurs at every conceivable level of product and process, it is most apparent in the systems with which drivers and consumers will interact directly – the equipment and services they consciously use – telematics for example, dynamic navigation systems that will reduce traffic jams, fuel consumption and exhaust emissions, and ease pressure on urban transport systems.

**FROM VIRTUAL REALITY TO REAL VALUE.** Then there's the IT under the hood - the engineering you don't actually see, but whose presence you register. At DaimlerChrysler's Marienfelde complex in Berlin, Wilfried Käding presides over the automotive industry's most advanced driving simulator. A large projection dome mounted on six hydraulic actuators that run up and down on rails, the simulator offers complete movement to left and right, backwards and forwards, and up and down. A car is bolted to the floor of the dome, and a visual display projected around the dome's inner walls simulates driving under all conditions – other traffic, weather conditions, road surfaces, or general hazards and crises. The "driver" can experience the entire spectrum of conditions and vehicle performance in real time, while his own performance and reactions are similarly measured. There's practically nothing about a car or its driver this machine cannot test. "There are other simulators," says Käding, "but nothing as sophisticated as this. With it we can make concepts driveable without actually building them first."

What the simulator and other technologies have been to Mercedes-Benz and automotive engineering, Chrysler's sophisticated CAD system has been to automotive design. At Auburn Hills, Walter Solak, responsible for Design Operations in the Product Design Office, demonstrates the use of CATIA (computer-aided three-dimensional interactive application) software that is becoming the group's dominant platform for all phases of development, from product concept to plant design. Solak says advanced vehicle concepts such as the Dodge Copperhead Convertible coupe have been modelled by computer to such a precise state of finish that the company's top managers can approve them for further development on the strength of a CATIA-generated video demonstration. CATIA's power is in its ability to build and store layers of design data, and make them available in a common language to all parts of the design and manufacturing process simultaneously. It's a shorter, more flexible, cost-efficient process that is slashing overall development and manufacturing times – another example of how DaimlerChrysler is getting its products to market better and faster than ever before. CATIA enabled Stuttgart to cut its development lead times by three months, i.e., 15%, during 1999, and the time taken to build a Mercedes-Benz prototype has been cut by 30%.

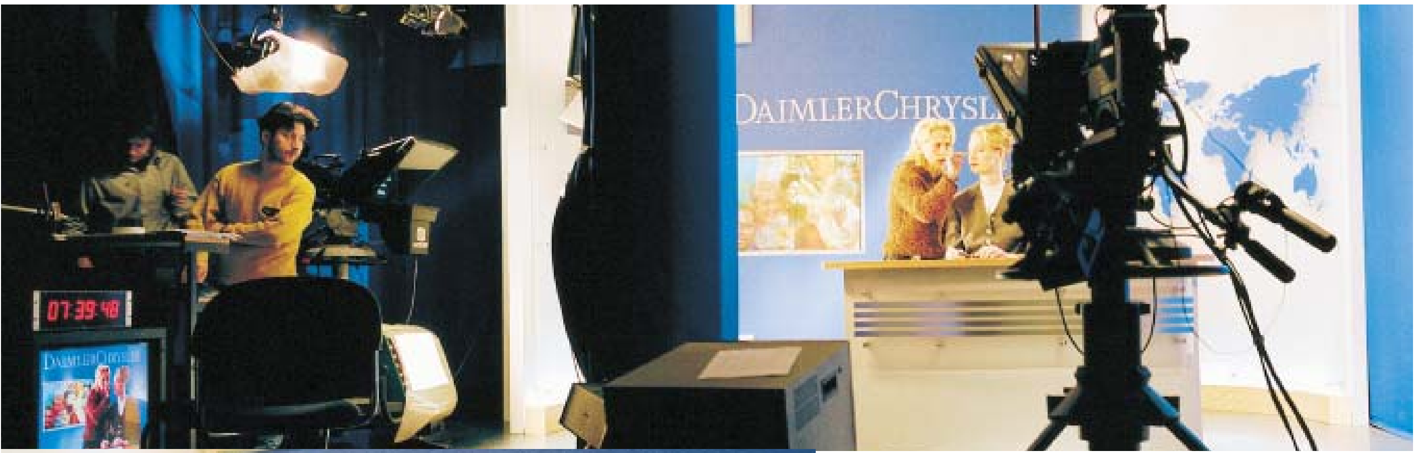
"What we've done," says Janet Priestap, responsible for Plant Solutions, who has been overseeing a trial program for the design by CATIA of a new Jeep plant, "is take what we've learned in automotive design and apply it to plant design. We can 'fly' you through an entire plant. The vision is to enable virtual manufacturing." The benefits are multiple. "It allows earlier and more effective optimization of plant and process design. It supports faster launches. The virtual approach allows bugs to be identified and eliminated long before implementation, resulting in lower costs, better production facility utilization, and shorter time to market. This is not science fiction," says Priestap. "We are already applying these tools."

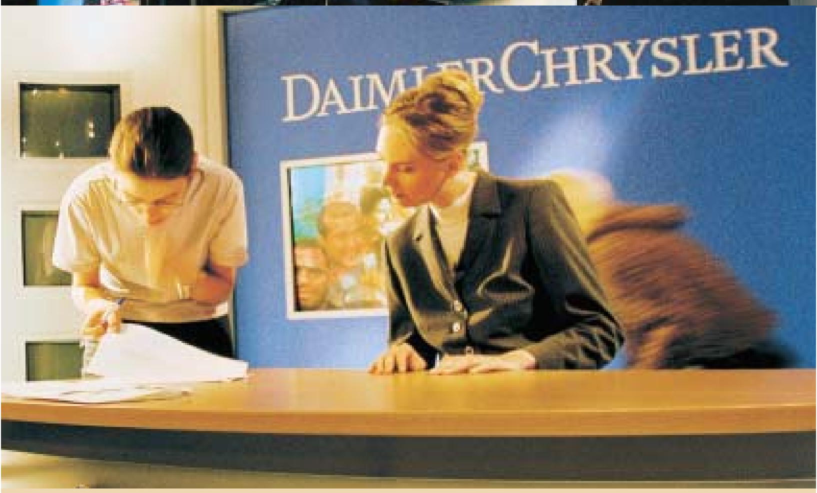
**PROCESS LEADERSHIP.** Taken in tandem with the "agent-based factory" being perfected in Berlin, Priestap's exposition offers another illustration of the many benefits of synergy and technological cooperation that give the company's three automotive divisions and their brands their new depth. At the company's Berlin research facility, Stefan Bussmann describes a new computer software, a so-called "agent system" that identifies and networks autonomous, automated components within a production or supply chain. This permits each agent to adapt to changes it detects in the system around it, and coordinate its response with the other agents. This system will introduce a quantum shift in manufacturing efficiency and flexibility by increasing throughput by at least 10%, making it possible to respond more flexibly to market changes. Down the corridor, Volker May of the Knowledge-Based Engineering unit, explains to lay visitors a diagnostic system that originated in DaimlerChrysler Aerospace's space shuttle program and is now finding its way into passenger cars. While May's presentation is a thing of beauty to the industrial engineer, it is bewilderingly technical to his visitors. Not that it matters. May's audience has understood much more than he could possibly convey in words – about that place in the mind where science and the heart meet in a passion for the cutting edge, engineering excellence and common business sense.

But it is Hans-Joachim Schöpf, chief engineer of the Mercedes-Benz and smart division, who offers the most acute summation of the relationship between technology, innovation and, ultimately, performance. "We must meet customer expectations, then go beyond them. At the same time, we must be asking how we can distinguish ourselves through innovation, and create a unique selling proposition, but still have people say, 'This is real value for money.' Quality, cost and innovation at the right time are all critical, but at the heart is pace-making innovation. After all, we have a 6-8 year life cycle in the automotive industry, while in the electronics industry it's only 12 months. The question we have to address is how we adapt to higher rates of change in associated industries."

The key, says Schöpf, is process leadership, creating a workplace that encourages a rapid exchange of ideas and information among designers and engineers, combined with a high degree of digital product development, and placing workshops in the heart of the developmental "marketplace".

For Schöpf, the qualities he finds most admirable in his Auburn Hills colleagues are their flexibility – "they are very nimble in process" – their unfailing concern about containing costs; and their insight into the business development process.




**A COMPANY COMMUNICATING.** *DCTV, the company's in-house, business-wide television service has studios co-located in Troy, Michigan, USA and Stuttgart, Germany. Pioneered in Auburn Hills and now broadcasting in seven languages, DCTV is available to 420,000 employees, spread through plants, research facilities and offices around the world. The network produces news and company information, continuously repeated throughout the day via more than 5,000 television sets. DCTV has become an important tool in connecting the global family of DaimlerChrysler, generating corporate esprit d' corps, and showcasing the company's achievements and technologies.*

What he most admires in his Stuttgart colleagues is the strength of their technology, innovation, and product quality and finish. "For DaimlerChrysler it is a matter of how quickly Stuttgart can transfer its technologies to Auburn Hills, and how quickly Auburn Hills can transfer its processes to Stuttgart." The rate of exchange is moving like a high-speed train. The willingness to share, says Schöpf, has been fantastic.

**KEEP ON TRUCKING.** Between Freightliner in North America, and Mercedes-Benz in Europe, the Commercial Vehicles division headed by Dieter Zetsche is No. 1 in the world. And it's here that one sees with particular clarity how DaimlerChrysler knits together the diverse strengths and competencies of its different parts, builds them into a company-wide design, technological and commercial know-how, then leverages it all out across the divisions to build brand leadership and market share.

Describing the value chain strategy, corporate strategist Alexander Koesling says much of the thinking in this area is being driven by the commercial vehicle sector. That point is well illustrated by DaimlerChrysler truck subsidiary Freightliner's astonishing level of backup to North America's long-distance truckers. This is a company founded by a frustrated customer who so badly wanted a better truck, he decided to make them himself. How's that for customer orientation! "It's customer driven like no other company I ever met," says Zetsche.



**ONROAD, ONLINE.** *Having renewed its product line, Mercedes-Benz trucks are now offering new services to their operators. In 1999 FleetBoard, a new fleet management system, was introduced. Seen here in the popular Actros (above and right), FleetBoard represents a major advance in truck-operator business-to-business communications. This Internet-driven system includes data management, journey audits, text transmission, fault diagnosis, analysis of driver performance, position reporting and digital roadmapping. Overall, FleetBoard optimizes efficiency and cuts operating costs by improving communication, scheduling, and vehicle monitoring.*

It’s an ethic that carried through from manufacture to service, as Jim Hebe, president of Freightliner, elaborates. “We have been successful not only in building the most complete and modern range of trucks available, but also in building services around that vehicle. Our involvement in the value chain is such that we support the customer through the entire life of the truck. We are the only manufacturer in North America which requires its dealers to provide service 24 hours a day, seven days a week. We have more dealers open on this basis than all the rest of the industry combined. We have a 24-hour call centre. If a customer is down and can’t get service, they call our call centre and it will do anything that has to be done to get them fixed - get them into a Freightliner shop, or even a competitor shop. We’ll do anything – get parts off the plant floor, ship them, whatever it takes. We’ve also developed the only total vehicle computer diagnostic system. From our call centre we can diagnose a vehicle anywhere in North America, and instruct the mechanic on how to repair the problem.”

All this wealth of customer service experience is now part of DaimlerChrysler’s developing value-chain product and service template. Meanwhile, the company is busy leveraging its technological capacity from the passenger car side of the house, over to commercial vehicles. “Beyond mere scale,” says Dieter Zetsche, “we have the advantage of being part of a big automotive group, with all the technological leadership which is provided by this group. Funded by the big car revenues we are getting, and the profits we are making, we can be at the forefront of technology on the car side, and apply that to the commercial vehicle side - which sets us even more apart from any competitor.”

So what’s to come? Beginning this year, DaimlerChrysler will be introducing its S-class electronic stability wizardry into its Mercedes-Benz and Freightliner trucks, and extending that capability into the even more complex task of controlling truck-trailers. Also on the menu are lane-sensor devices and distance control (distronics).

And what’s the next big thing for commercial vehicles? Very simply, e-commerce.

This is one division where e-commerce makes its way directly to the bottom line via the product. Growth in the long haul business will continue to track GDP growth, says Zetsche, which makes the future pretty bright. But it’s the growth in e-commerce, which market pundits expect to be exponential, that is really lighting up the house. Shopping on the Internet depends on delivery by van. So with e-business booming for a company like Federal Express... Fedex, says Zetsche, has already made the Mercedes-Benz Sprinter its standard vehicle worldwide except North America and a few Asian countries and is currently testing 80 Sprinters within the US. And Freightliner’s Hebe has a US matcher - the Internet grocery store, Homegrocer.com, has ordered a thousand light vans from Freightliner since it opened up shop two years ago. This sector is going to catch fire.

**CHAIN REACTION.** Over at Procurement and Supply, where their primary job is to shape the world’s most effective supply chain for a company that annually purchases €95 billion worth of supplies from 30,000 suppliers, Board Member Gary Valade and his team have shaved almost €4 billion off the company’s cost base through synergy savings, reductions in variable costs and a supplier cost reduction effort. The Internet is also being used here.

This is a major part of the upstream end of the automotive value chain – the part that terminates with the car, manufactured and ready for sale on the showroom floor. Here - through innovative thinking about the way the DaimlerChrysler divisions buy or create demand for the supplies they build into their products – a 600-strong team at Procurement & Supply, supported by thousands of others throughout the supply chain, is moving the company toward a lower cost base. This process is strongly assisted by the additional leverage with suppliers afforded the company by its significantly enlarged scale. Valade’s team has united the best of the two processes that were separately at work on either side of the Atlantic, and injected new elements that will strengthen DaimlerChrysler’s capacity to find the world’s best suppliers, even supporting their own technology and innovation program where appropriate.
It means presenting one face to the supplier, searching for and developing new synergies across the business units, and globalizing information throughout the company and its supply base.

From start to finish - or in this case, from finish to start – from the innards of an on-board diagnostic system, to the model of your dreams, to a safer ride, to a lifetime fuel-purchasing discount, to the best possible way home – be it route or mode – DaimlerChrysler is fashioning a tool for consumer delight of extraordinary scope and power.
It has become the ultimate dream machine – but like Dirk Walliser’s, its dreams are profoundly real.

**“We must meet customer expectations, then go beyond them. At the same time, we must be asking how we can distinguish ourselves through innovation, and create a unique selling proposition that is value for money.”**

# Earning Power increases once again

- New records for earnings, unit sales and revenues
- Operating profit grows faster than revenues - up 28% to €11.0 billion
- Net income increases from €4.8 billion to €5.7 billion
- Synergy targets significantly overachieved with benefits of €1.4 billion
- €2.35 dividend proposed (1998: €2.35)
- Almost 4.9 million passenger cars and commercial vehicles sold (1998: 4.5 million)
- Dasa, Aérospatiale Matra and CASA merge to form EADS



**EARNING POWER INCREASES.** DaimlerChrysler continued to grow profitably in 1999. Operating profit increased to €11.0 billion (1998: €8.6 billion). After adjusting for one-time effects such as income from the sale of debitel shares, operating profit was up 20% to €10.3 billion and still outpaced revenues. Particularly sharp increases were posted by the Mercedes-Benz Passenger Cars & smart and Chrysler Group divisions. Net income at DaimlerChrysler increased by 19% to a record €5.7 billion; adjusted for one-time effects, net income rose to €6.2 billion (up 16%).

Net operating income, the basis for calculating return on net assets, increased to €7.0 billion (1998: €6.4 billion). Representing a return of 13.2% (1998: 12.7%) it again significantly exceeded the minimum rate of return of 9.2% required to cover cost of capital and to increase corporate value, meaning that the company achieved further profitable growth. The difference between operating profit and capital costs (value added) increased by €0.4 billion to roughly €2.1 billion, significantly increasing the value of the company. DaimlerChrysler is thus one of the most profitable automotive companies in the world. (see p. 60)

**€2.35 DIVIDEND PROPOSED.** We are proposing to our shareholders a dividend of €2.35 (1998: €2.35) per share for 1999. With a total dividend payout of €2,358 million, DaimlerChrysler is paying the highest dividend among the companies included in the DAX30 and is one of the top dividend paying companies in the automotive industry.

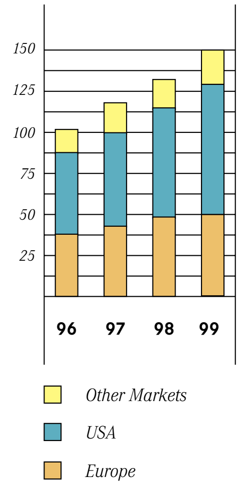
**WORLD ECONOMIC GROWTH SLOWS.** The positive trend of global economic growth eased off slightly during the year under review. When weighted to reflect the share of the Group's revenues generated in each country, economic expansion in DaimlerChrysler's markets decreased to 2.9% from 3.2% in 1998. This was primarily a result of slow growth in Western Europe, particularly in Germany, as well as the economic crisis in South America. On the other hand, the beginning of a recovery in Japan and other Asian countries had an overall positive effect. The economic situation in North America remained favorable. As was the case in 1998, the US economy grew by 4%, driven mainly by sustained consumer spending and high levels of investment.

The international exchange rate structure, in particular the strength of the dollar, the pound and the yen compared to the euro, generally had a favorable impact on our operating businesses.

| **Operating Profit** in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| DaimlerChrysler Group | 11,089 | 11,012 | 8,593 |
| Mercedes-Benz Passenger Cars & smart | 2,722 | 2,703 | 1,993 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 5,086 | 5,051 | 4,255 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 1,075 | 1,067 | 946 |
| Services | 2,053 | 2,039 | 985 |
| Aerospace | 735 | 730 | 623 |
| Others | (402) | (399) | (130) |
| DaimlerChrysler Group adjusted | 10,388 | 10,316 | 8,583 |

| Revenues in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| DaimlerChrysler Group | 151,035 | 149,985 | 131,782 |
| Mercedes-Benz Passenger Cars & smart | 38,367 | 38,100 | 32,587 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 64,534 | 64,085 | 56,412 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 26,882 | 26,695 | 23,162 |
| Services | 13,023 | 12,932 | 11,410 |
| Aerospace | 9,255 | 9,191 | 8,770 |
| Others | 5,893 | 5,852 | 3,526 |

**Consolidated Revenues**
in billions of €






**REVENUES INCREASE BY 14% TO €150.0 BILLION.** Despite the slow growth of the world economy, DaimlerChrysler boosted revenues by 14% to €150.0 billion in 1999. Growth was particularly strong in the US (up 20% to €78.1 billion). In Germany, we were able to increase our revenues by 14% to €28.4 billion, while revenues from the European Union excluding Germany were up 7% to €21.6 billion. In the remaining markets revenues rose 2% to €21.9 billion, despite the difficult economic situation in South America.

**STRONG GROWTH IN THE AUTOMOTIVE BUSINESS.** Positive sales trends in Western Europe and North America contributed significantly to total revenues of €127.3 billion in our automotive business, an increase of 14% from 1998. Sales of DaimlerChrysler passenger cars and commercial vehicles increased to almost 4.9 million units (1998: 4.5 million) in the year under review. Of these, some 3.2 million (1998: 3.1 million) were Chrysler, Plymouth, Jeep and Dodge brand passenger cars and light trucks, while 1,080,000 (1998: 923,000) were Mercedes-Benz and smart brand vehicles. Sales of Mercedes-Benz, Freightliner, Sterling, Setra and Thomas Built Buses commercial vehicles totaled 555,000 units (1998: 490,000).

Sales of Mercedes-Benz passenger cars achieved double-digit growth rates in nearly all key markets. The new S-Class, which enabled us to substantially expand our lead in the premium segment, was particularly successful in 1999. The A-Class, M-Class and the CLK coupe also contributed significantly to increased sales of the Mercedes-Benz brand. The smart city coupe became one of the leaders in the Western European compact segment during the year under review. (see pp. 30-33)

Sales of Chrysler, Jeep, Dodge and Plymouth brand vehicles in the US increased by 6% to 2.7 million units in 1999. In the sport-utility vehicle segment sales were especially strong due to the great success of the Jeep Grand Cherokee. Our range of pickups was augmented by the Dodge Dakota Quad Cab in 1999. The Chrysler PT Cruiser, a multi-purpose passenger car of unique design in the industry, was presented at the Detroit Auto Show in January 1999 and will be arriving at dealerships in the spring of 2000. (see pp. 34-37)

An attractive range of products spearheaded profitable growth at the Commercial Vehicles division in 1999. Sales increased significantly in North America, where the Freightliner and Sterling brands helped to further strengthen our market position. Sales of trucks, vans and buses of the Mercedes-Benz and Setra brands in Western Europe also grew. However, the economic crisis in South America depressed sales there. (see pp. 38-41)

**GROWTH AT OTHER DIVISIONS.** The Services division posted a substantial increase in revenues for the 10th consecutive year. Strong growth continued at both the IT Services (+ 31% to €2.9 billion) and the Financial Services (+ 29% to €10.1 billion) business units. We were particularly successful in North America, where the division's revenues rose 35% to €6.3 billion. (see pp. 44-45)

Revenues at the Aerospace division increased by 5% to €9.2 billion. The Civil Aircraft business unit again enjoyed particular success, with Airbus posting the highest volume of incoming orders in the international civil aircraft industry for the first time ever. Incoming orders at Dasa as a whole again exceeded revenues but, as expected, did not reach the extraordinarily high level of 1998. (see pp. 46-47)

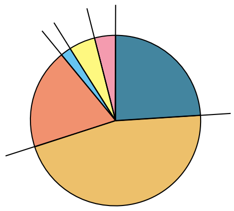
Adtranz contributed €3.6 billion (+7%) to the total revenues of €5.9 billion from other DaimlerChrysler businesses. Automotive Electronics accounted for €0.9 billion (+18%) and Diesel Engines €1.0 billion (+4%). (see pp. 48-49)

**SYNERGY TARGETS OVERACHIEVED.** Integration at DaimlerChrysler proceeded much more rapidly than planned. By the end of 1999, we had completed virtually all individual projects or transferred them to the line organizations. Important synergy initiatives that turned

**Synergy savings 1999**
in millions

| | 99 € |
|---|---|
| Purchasing | 520 |
| General Integration/ Finance /Services | 370 |
| Research and Development | 80 |
| Sales Organization/ Additional Sales | 420 |
| Total | 1,390 |

**Purchasing Volume**
€94.9 billion (1998: €79.6 billion)



| | |
|---|---|
| *Mercedes-Benz Passenger Cars & smart* | 24 % |
| *Chrysler Group* | 46 % |
| *Commercial Vehicles* | 19 % |
| *Services* | 2 % |
| *Aerospace* | 5 % |
| *Other* | 4 % |

potential into performance included the joint production of the M-Class and the Jeep Grand Cherokee in Graz, the integration of our sales organization in all important markets, the exchange of components in the automotive business, and numerous projects in global procurement and supply. For example, the implementation of a software program previously only used in Auburn Hills, will enable us to reduce the development time for Mercedes-Benz vehicles by more than 15%. All in all, with €1.4 billion in the year under review, we significantly overachieved the synergy targets announced in the merger report.

**TARGETED ACQUISITIONS IN THE AUTOMOTIVE SECTOR.** On January 1, 1999, DaimlerChrysler strengthened its position in the high-performance sports car segment by purchasing 51% of AMG GmbH. The remaining shares in the company will be acquired gradually between now and 2009. This acquisition will enable us to expand the market presence of the renowned AMG brand.

In addition, in January 2000 we acquired a 40% stake in the TAG McLaren Group, one of the world's leading producers of high-performance sports cars and racing cars. Our investments in AMG and TAG McLaren are part of a strategy designed to further strengthen both the technological competence and the image of the Mercedes-Benz brand.

In a move that will further strengthen our position on the global bus market, our Freightliner subsidiary established a joint venture with the UK's Mayflower Corporation plc. The new company, known as Thomas Dennis Co. LLC., focuses on the production and marketing of commercial low-floor buses for the North American market.

On October 1, 1999, DaimlerChrysler also acquired 49% of the vehicle customizing company, Westfalia Werke GmbH & Co., in response to the growing demand for customized recreational vehicles.

**SALE OF DEBITEL SHARES GENERATES €1.1 BILLION.** In 1999 we reduced our stake in debitel AG from 52% to 10%. In view of the competitive situation in the telecommunications sector, substantial investment would have been necessary in fixed-line networks to secure debitel's position in the telecommunications market and to expand internationally. Such an investment, however, would have run counter to DaimlerChrysler's strategy of concentrating on its automotive business and related services.

**NEW DIMENSIONS IN AEROSPACE.** The agreements signed in October 1999 to establish the European Aeronautic Defence and Space Company (EADS) and the space technology joint venture Astrium open up new opportunities for the European aerospace industry.

The merger of Dasa, the French company Aérospatiale Matra and CASA of Spain to form EADS will create the largest aerospace company in Europe and the third-largest worldwide. EADS, which is expected to have 96,000 employees and annual revenues of €21 billion, is scheduled to begin operations in the summer of 2000. We and our French partners will each hold 30% of the new company, while the Spanish state holding company SEPI will have a 5.6% stake. The remaining 34.4% will be offered to the public and traded on the stock market.

Astrium, which is scheduled to begin operations in the first half of 2000, will consolidate the space technology activities of Matra Marconi Space (MMS) and Dasa. We expect Alenia Spazio, a subsidiary of Finmeccanica (Italy), to also join Astrium. Astrium will be one of the world's leading space technology companies and the biggest in Europe.

| **Investments in Plant, Property an Equipment** in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| DaimlerChrysler Group | 9,536 | 9,470 | 8,155 |
| Mercedes-Benz Passenger Cars & smart | 2,244 | 2,228 | 1,995 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 5,261 | 5,224 | 3,920 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 775 | 770 | 832 |
| Services | 326 | 324 | 285 |
| Aerospace | 338 | 336 | 326 |
| Others | 592 | 588 | 797 |

| **Research and Development costs** in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| DaimlerChrysler Group | 7,628 | 7,575 | 6,693 |
| Mercedes-Benz Passenger Cars & smart | 2,057 | 2,043 | 1,930 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 2,014 | 2,000 | 1,695 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 833 | 827 | 714 |
| Aerospace | 2,019 | 2,005 | 2,047 |
| Others | 705 | 700 | 307 |

**12,000 NEW JOBS CREATED.** Adjusted for changes in the consolidated group, DaimlerChrysler created 12,000 new jobs in 1999 as a result of the success of our products and services. Our total work force now numbers 466,938 employees. While the Services division accounted for about 3,600 of the new jobs, increased demand also necessitated new hirings in our automotive divisions. (see pp. 58-59)

**GLOBAL INTEGRATION OF PROCUREMENT AND SUPPLY.** In 1999, DaimlerChrysler purchased goods and services worth €94.9 billion (1998: €79.6 billion).

Last year, our worldwide purchasing activities were concentrated in the new corporate department, Global Procurement & Supply, and we merged our two former supplier programs, Tandem and SCORE. The result is a platform which allows us to develop and strengthen long-term partnerships with excellent suppliers all over the world. Numerous projects which exploited the enhanced procurement potential of our new, merged company led to synergies totaling €520 million in the year under review. (see pp. 56-57)

**NEW BOARD OF MANAGEMENT STRUCTURE.** In September 1999, we reduced the DaimlerChrysler Board of Management from 17 members to 14 and reorganized their responsibilities. The new structure makes for a more efficient and effective organization that can quickly and flexibly respond to market challenges. We established the Automotive Council early on as a means of promoting the transfer of automotive business know how throughout the company. The Council is responsible for the exchange of technology, product ideas and strategy, while ensuring that the policy of strict separation of vehicle brands is observed. We also set up a Sales and Marketing Council to coordinate global sales and marketing activities. (see pp. 42-43)

**€9.5 BILLION INVESTED IN 1999.** Investment in plant, property and equipment at DaimlerChrysler increased to €9.5 billion (1998: €8.2 billion). More than 86% was channeled into our automotive business. Among the most important investment projects at the Mercedes-Benz Passenger Cars & smart division were the new Technology Center in Sindelfingen and the preparations for producing the new C-Class. Investment in the Chrysler Group division focused on the new Jeep assembly plant in Toledo, Ohio, a new production plant for six-cylinder engines in Detroit, and preparations for producing the PT Cruiser and the new generation of minivans. Investment at the Commercial Vehicles division was targeted primarily at the modernization of production facilities and the expansion of capacity in North America.

We also invested €0.3 billion (1998: €0.3 billion) in DaimlerChrysler Aerospace. Most was focused on expanding capacity in the Airbus program. Investment in the Services division totaled €0.3 billion, most of which went into the IT Services business unit.

**€7.6 BILLION FOR RESEARCH AND DEVELOPMENT.** In 1999, there were more than 40,000 employees working in research and development at DaimlerChrysler worldwide, underscoring the importance of R&D within our value-based management system. Our objective is to bring new, attractive products to market as quickly and cost-effectively as possible, thereby gaining key competitive advantages. R&D expenditures increased from €6.7 billion in 1998 to €7.6 billion in the year under review. Of this amount, €1.8 billion (1998: €1.7 billion) went toward projects commissioned by third parties, most of them in the Aerospace division.

Almost 85% of R&D investment was directed towards securing the future of our automotive business, while 8% was at DaimlerChrysler Aerospace and 5% was at the other industrial business units.

# Shareholder base expanded significantly

- **Upward trend on international stock markets**
- **Performance of automotive stocks lagged behind international indexes**
- **Share price does not reflect positive business developments at DaimlerChrysler**
- **Highest dividend yield in the automotive industry**



**UPWARD TREND ON INTERNATIONAL MARKETS.** The year 1999 saw stock markets in North America and Europe fluctuate wildly, before closing the year at record highs. Driven by a powerful year-end surge, the DAX rose 39% over the year to 6,958. The Dow Jones Industrial Average was up 25% at end-1999, the Dow Jones Euro Stoxx 50 Index 47% and the London FTSE-100 18%. Japan's Nikkei Index rose 37% to 18,934 points, although it was still about 50% below its record level at end-1989. The upward trends continued into mid-February 2000. Both the DAX, with 7,812 points on February 11, and the Dow Jones, with 11,750 points on Januay 14, set new records.

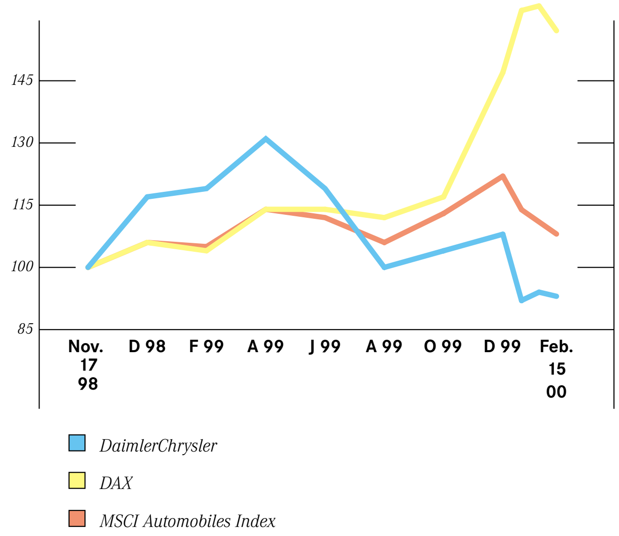
The upward trend on world stock markets resulted from a high volume of liquidity in search of investment opportunities; low interest rates and the generally positive prospects for accelerated economic growth. Large international mergers and merger speculation throughout various branches of industry also fueled rises on capital markets. Telecommunications and IT stocks particularly benefited, as did financial stocks. Automotive stocks, however, lagged behind the buyoant market trends.

**DCX PERFORMANCE.** Despite positive earnings prospects for DaimlerChrysler throughout 1999 as reflected in key indicators for DCX the ticker abbreviation of our shares, the company's share price did not benefit from the generally favorable performance of capital markets (see table). Immediately following DaimlerChrysler's launch on November 17, 1998 "Day One", the DaimlerChrysler share price quickly surged above the average for German corporations. Financial analysts pointed to the benefits of the merger and a strong North American automobile market. The subsequent fall of the share price was due to the generally more modest development of world markets and the more reserved analyst forecasts in view of expected medium-term trends on automobile markets.

DCX fell sharply at the end of July, despite good six-month results. Some investors were concerned that the US automobile market might slow and impact on DaimlerChrysler's earnings. At the end of September 1999, DCX reached a year-low of €63.26 in Europe and $65 5/16 in the US. However, the share price subsequently recovered for a while, closing the year at €77 in Europe and $78 1/4 in the US. On February 15, 2000, it was trading at €66.29 and $66, respectively.

**HIGH VOLUME OF DAIMLERCHRYSLER SHARES TRADED.** DaimlerChrysler's weighting in the German DAX 30 was 7.5% at the end of 1999, the fourth most heavily weighted stock on that index. It is the only automotive stock in the Dow Jones Euro Stoxx 50 Index, with a 2.9% weighting, putting DCX in ninth place. DaimlerChrysler has the second-biggest market capitalization among automobile manufacturers after Toyota.

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

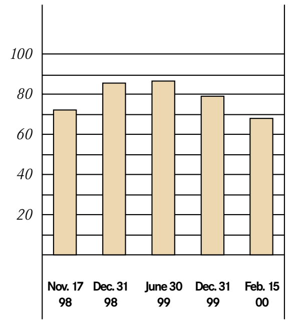


## Statistics per Share

| | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| Net income (basic)[1)] | 6.25 | 6.21 | 5.58 |
| Net income (diluted)[1)] | 6.20 | 6.16 | 5.45 |
| Dividend | | 2.35 | 2.35 |
| Stockholders' Equity (Dec. 31) | 36.19 | 35.94 | 30.31 |
| Number of shares in millions (Dec. 31) | | 1,003.3 | 1,001.7 |
| Share price: Year-end | 78 1/4 | 77.00 | 83.60 |
| High | 108 5/8 | 95.79 | 85.90[2)] |
| Low | 65 5/16 | 63.26 | 70.61[2)] |

1) Excluding one-time effects.
2) Since November 17, 1998.

**DaimlerChrysler Market Capitalization**
(end of reporting period)
billions of €






Worldwide trading volume of DaimlerChrysler stock in 1999 amounted to 1.1 billion shares. Of these, 196 million were traded in the US and 872 million in Germany (including Xetra trading). DaimlerChrysler was among the top companies on German stock exchanges in terms of volume. Contracts traded for DaimlerChrysler shares on the Eurex (formerly German Futures Exchange) were among the highest in volume.

In terms of dividend yield, with about 5% (including tax credits), the DaimlerChrysler share has the highest value in the international automobile industry and among the DAX 30 companies.

**INCREASING NUMBER OF SHAREHOLDERS.** DaimlerChrysler's shareholder base grew by more than 30% from 1.4 million to 1.9 million shareholders in 1999 - a significant expansion. This is evidence of continued confidence in DaimlerChrysler's stock and its attractiveness as a long-term investment. Institutional investors, including Deutsche Bank (12%) and the Emirate of Kuwait (7%), own approximately 75% of total share capital. Around 25% is held by private investors. The proportion of European shareholders increased further to around 65%. Some 22% of the company's equity is held by investors in the US.

**INCREASED USE OF NEW MEDIA FOR INVESTOR RELATIONS.** In 1999 we set up the DCX Investor Relations homepage with great success. Here, investors can find not only information on the company and its stock, but also all annual and interim reports, SEC filings, corporate presentations and videos of these presentations. Currently we have more than 10,000 page-visits a day and rising.

In addition, we have significantly enhanced our information service. We publish a quarterly comprehensive fact-sheet for the whole Group and a monthly updated production schedule for the Chrysler Group. Furthermore, with our Investor Relations Releases, we provide the 1,500 leading investors and analysts with information by e-mail and fax on important DaimlerChrysler events. This information is simultaneously released to the press and posted onto the Internet so that private investors have equal and simultaneous access to information on all significant developments.

We have further intensified our contacts with institutional investors. We personally answered institutional investors' questions about DaimlerChrysler in more than 300 one-on-one discussions; which included our 150 biggest shareholders. About a third of these talks were conducted at Board of Management level. Moreover, we present our company to the investment community at all leading stock exchanges.

*More than 16,000 shareholders attended the Annual Meeting of DaimlerChrysler AG in May 1999.*

# Profitable growth

- **Continued high profitability**
- **Revenues to increase significantly to about €167 billion in 2002**
- **€50 billion to be invested by the year 2002**
- **Almost 60 new vehicle models by 2005**

**FAVORABLE OUTLOOK FOR THE WORLD ECONOMY.** We expect generally favorable economic conditions in all of our key markets throughout the planning period 2000 – 2002. While growth in North America may slow somewhat at a high level, it is likely to pick up in Western Europe. The Japanese economy is recovering, although in the short term it may not experience the dynamic growth of earlier years. Prospects for the emerging markets of Asia have greatly improved and we expect the economies of South America to begin to expand in 2000. For the countries of Eastern Europe, we expect moderate growth over the planning period.

We also anticipate that the convergence of economic growth rates in the US and Western Europe will lead to a stronger euro on the international currency markets.

**AUTOMOBILE DEMAND REMAINS HIGH.** Given the anticipated stable economic conditions on the world's markets, we expect the high sales volumes in automobile markets to continue in the period 2000 – 2002. However, we expect a slight reduction in demand for automobiles in North America and Western Europe after the record-setting year of 1999. On the other hand, demand is expected to increase considerably in Asia and South America. Furthermore, the increasing globalization of the automobile industry, as well as shorter product cycles and growing pressures to reduce costs will all act to accelerate the process of industry consolidation.

**PROFITABLE GROWTH AT DAIMLERCHRYSLER.** Due to our attractive product range and high order backlogs, we expect revenues in 2000 to increase to approximately €153 billion. Despite more intense competition in the automotive sector, we expect revenues to increase to €167 billion by 2002. This forecast assumes a moderate appreciation of the euro against the dollar, pound and yen. We plan to achieve our highest rates of growth in Asia, South America and Eastern Europe. A variety of new and attractive products will enable nearly all business units to grow faster than the market over the coming years. Strict cost management at all divisions and additional synergies resulting from the merger will provide a strong foundation for continued profitable growth. Of course, these results are contingent upon the accuracy of our assessments of how important markets and exchange rates will develop.

**FURTHER GROWTH IN THE AUTOMOTIVE BUSINESS.** The Mercedes-Benz Passenger Cars & smart division will be rounding off and updating its range of products throughout the planning period. The new C-Class, which will be launched in May 2000 and offered in five different model versions in the coming years, will play an important role in helping to strengthen the worldwide market position of the Mercedes-Benz brand. The smart brand will also achieve greater momentum in 2000 through the introduction of the extremely fuel-efficient cdi diesel model and the smart City convertible.

In order to strengthen its position on the fiercely competitive North American automobile market, the Chrysler Group division will be renewing more than half of its product portfolio over the next two years. The innovative and unconventional PT Cruiser, which will be available in spring 2000, has defined a new market segment and is opening up new opportunities for growth. In addition, the new generation of Chrysler and Dodge minivans, which we will be launching in the fall of 2000, will further strengthen our lead in this segment.

In order to ensure continued profitable growth and expand its share of the world market, the Commercial Vehicles division will take greater advantage of the benefits offered by international networks. We also want to maintain our technical leadership and to extend the range of services we offer in connection with commercial vehicles. Our new small van, the Vaneo, will open up additional opportunities. The Vaneo is DaimlerChrysler's first commercial vehicle in the high-growth segment of less than two metric tons gross vehicle weight.

**INCREASING REVENUES AT OTHER DIVISIONS.** The Services division is once again heading for above-average growth. The Financial Services business unit will focus on expanding leasing and financing services for both DaimlerChrysler and non-DaimlerChrysler products. While the IT Services business unit will concentrate on strengthening its international presence even further, we are also considering strategic alternatives for this business.

On the basis of a high volume of outstanding orders, particularly for civil aircraft, we expect revenues at the Aerospace division to increase over the coming year. In order to meet delivery deadlines for Airbus jets, we plan to increase annual production from 288 aircraft in 1999 to more than 350 in 2002. The merger of Dasa, Aérospatiale Matra and CASA to form the European Aeronautic Defence and Space Company (EADS) creates the third-largest aerospace company in the world and the largest in Europe. EADS will enjoy a considerably stronger competitive position on the global market than did its individual founding companies.

| **Revenues** in billions | 2000 E € | 2002 E € |
|---|---|---|
| DaimlerChrysler Group | 153 | 167 |
| Mercedes-Benz Passenger Cars & smart | 40 | 43 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 63 | 65 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 27 | 30 |
| Services | 15 | 19 |
| Aerospace[1)] | 10 | 11 |
| Others[2)] | 7 | 8 |

1) Excluding any EADS effects.
2) Including Potsdamer Platz and Headquarters.

| **Investments in Property Plant and Equipment** in billions | 2000 E € | 2000-02 E € |
|---|---|---|
| DaimlerChrysler Group | 10.9 | 27.9 |
| Mercedes-Benz Passenger Cars & smart | 2.2 | 5.7 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 5.6 | 14.5 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 1.3 | 3.4 |
| Services | 0.4 | 1.0 |
| Aerospace[1)] | 0.5 | 1.5 |
| Others[2)] | 0.9 | 1.8 |



We plan an early turnaround at Adtranz in 2000, breaking even during 2000, to realize annual cost reductions of €300 million by 2002 and focusing activities on the core business of rail vehicles. Our Automotive Electronics business unit will continue to benefit from the growing number of electronic components in automobiles. The MTU/Diesel Engines business unit is expected to expand business volume, especially in commercial applications. Prospects for growth look particularly good in Asia after the economic recovery there.

**€50 BILLION FOR THE FUTURE.** DaimlerChrysler plans to invest €45 billion in plant and equipment, research and development in the period 2000 – 2002. If third-party research is included, this figure rises to around €50 billion. A major part of the investment will be channeled into development and production preparation for 60 new passenger car and commercial vehicle models, which will be introduced over the period ending in 2005. Important projects include the successor models to the Mercedes-Benz C- and E-Classes, the Dakota and Ram trucks, the Jeep Cherokee, and the new Business Class truck from Freightliner. In addition to expanding and modernizing vehicle production facilities, funds will also be used to increase Airbus production capacity and develop new Airbus models.

**STRATEGIES FOR THE FUTURE.** DaimlerChrysler is a company whose unique potential ensures it an excellent global competitive position. At the same time, we are faced with challenges such as the continuing process of consolidation in the automotive industry, the growing importance of environmental considerations and the impact that Internet expansion will have on our business processes. In view of these challenges, we have developed six core strategies:

- Attain market leadership in every vehicle segment in which we are active.
- Provide premium services throughout the entire automotive value-added chain.
- Secure global growth and expand our global market presence.
- Form strategic partnerships in our non-automotive businesses.
- Attain worldwide leadership in human resources development and management.
- Introduce a value-added based performance measure defined as operating profit after deduction of capital costs, or net operating income after tax at Group level.

The implementation of these key strategies will create the conditions necessary for DaimlerChrysler not only to further strengthen its leading position in the international automotive industry, but also to continue growing profitably despite increasingly intense competition.

| **Research and Development[1)]** in billions | 2000 E € | 2000-02 E € |
|---|---|---|
| DaimlerChrysler Group | 5.9 | 17.5 |
| Mercedes-Benz Passenger Cars & smart | 1.9 | 5.5 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 2.0 | 6.0 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 0.9 | 2.4 |
| Aerospace[2)] | 0.4 | 1.3 |
| Others[3)] | 0.7 | 2.3 |

1) Excluding third-party contracts of €1.7 billion per year.
2) Excluding any EADS effects.
3) Including Potsdamer Platz and Headquarters.

## Mercedes-Benz Passenger Cars & smart

# Best year ever for Mercedes-Benz

*The new Mercedes-Benz CL is a unique synthesis of high performance and luxury. Advanced technology that is unavailable in any other car and innovative design are additional features of this exclusive Mercedes-Benz coupe.*

**The Mercedes-Benz Passenger Cars & smart division is the world's leading manufacturer of high quality passenger cars. Our products set themselves apart from those of our competitors through innovative technology, the highest levels of safety and comfort, and pioneering design. In 1999 we set new records for sales, revenues and operating profit. This success was due to the wide range of vehicles on offer: The most attractive and most diverse range of models Mercedes-Benz has ever presented. Moreover, the smart recovered from a difficult launch to become a market leader in the micro-car segment.**

| amounts in millions | 99 US$ | 99 € | 98 € |
|---|---|---|---|
| Operating Profit | 2,722 | 2,703 | 1,993 |
| Revenues | 38,367 | 38,100 | 32,587 |
| Investments in Property, Plant and Equipment | 2,244 | 2,228 | 1,995 |
| R & D | 2,057 | 2,043 | 1,930 |
| Production (Units) | | 1,097,142 | 947,517 |
| Sales (Units) | | 1,080,267 | 922,795 |
| Employees (Dec. 31) | | 99,459 | 95,198 |




**BRAND MANAGEMENT A KEY FACTOR.** Competition on the global passenger car market continues to heat up. Along with innovative technologies, brand management has become a decisive competitive factor. For these reasons we have worked hard on the continued development of the Mercedes-Benz brand over the past several years. As a result Mercedes-Benz is represented in nearly all premium market segments. The brand's vehicles are noted for innovative technology, the highest levels of comfort and safety, and pioneering design. Thanks to our product offensive and the pursuit of a consistent price/value strategy, sales of Mercedes-Benz passenger cars have risen from 600,000 to over one million units in a period of only four years.

In 1998 we introduced a completely new brand, with completely new technology, into a completely new market segment. The two-seater smart City coupe is innovative and unique, a car for individualists. What's more, it offers trend-setting solutions to problems of urban mobility and optimum use of resources.

**MARKETS DEVELOPED POSITIVELY.** Overall, trends in the key markets ofr the Mercedes-Benz Passenger Cars & smart division were favorable trend in 1999. New registrations of passenger cars in Western Europe were higher than in 1998. Mercedes-Benz and smart market segments profited from this development. In North America, sales in the premium market segments again surpassed the previous year's high levels, primarily as a result of generally favorable economic conditions. In contrast, the economic crisis in South America held back demand for passenger cars throughout the year. The markets in Japan and the emerging Asian economies registered only slight improvement, while Eastern Europe and the Middle East countries remained weak.

*The convertible version of the smart City coupe features an innovative, multi-stage roof design. The smart City convertible is equipped with the same SUPREX turbo engine as the smart City coupe, and reaches an electronically limited top speed of 135 kph.*




**RECORD SALES, REVENUES AND OPERATING PROFIT.** The Mercedes-Benz Passenger Cars & smart division continued growing profitably in 1999. Unit sales and revenues increased significantly and market share improved in nearly all important markets. Revenues set a new record, climbing to €38.1 billion (1998: €32.6 billion). 1999 was also the first year in which more than one million Mercedes-Benz and smart passenger cars, station wagons, SUVs and City coupes were sold throughout the world, an increase of 157,500 vehicles over last year's record. This positive sales development was accompanied by an increase in operating profit of 36% to €2.7 billion, a new record.

**MERCEDES-BENZ ENJOYED MOST SUCCESSFUL YEAR.** Sales of Mercedes-Benz passenger cars increased by 10% to a record of 1,000,400 units in 1999.

The A-Class was particularly successful. With safety standards unique in its class, a wide range of innovations—including its special design—and an attractive engine program, extended by the new 1.9-liter gasoline engine, the A-Class has established itself in a fiercely competitive market segment. The new S-Class received numerous awards and top ratings in a variety of tests. Our top model is setting standards competitors will have to match. It was therefore no surprise that new registrations of S-Class vehicles in both Germany and Japan were almost twice as high as those for the predecessor model. Overall, the vehicle's global market share of the luxury segment reached 50%. The M-Class and the CLK also had a very successful year. The E-Class, which underwent a significant model update in both engineering and design in July, fell slightly short of last year's sales volume. However, in the second half of the year, the model update led to a strong increase in sales. As expected, sales of the C-Class sedan, which will be replaced by a new model in June 2000, were lower.

**SALES RECORDS IN IMPORTANT MARKETS.** Unit sales growth in Western Europe in general (+8%) and Germany in particular (+9%) was strong in 1999 and Mercedes-Benz was able to retake the lead in the high-priced V-8 segment with the new S-Class. Mercedes-Benz also became the leading brand in the convertible segment for the first time. This was primarily a result of the success of the CLK convertible. In the US, we were able to surpass the previous year's sales volume for the sixth consecutive year. Our market share in the comparable segments reached 7.4%. In Japan, Mercedes-Benz was again the most successful import brand in 1999. Once again, our performance in Japan was significantly better than that of our direct competitors. In addition to the S-Class—which has met with a tremendous response in Japan—the M- and A-Class also contributed greatly to our success. Our share of the comparable market segments increased to 14.2% in Japan (1998: 12.2%).

**M-CLASS SUCCESS STORY CONTINUES.** The M-Class has received numerous awards since its introduction in 1997. In July 1999, it was selected by the Insurance Institute for Highway Safety as "Best Pick" following frontal crash tests on 15 sport utility vehicles. The 2000 model, which features a comprehensive package of improvements and attractive new diesel engines, will ensure that the popular SUV remains in great demand. Production capacity for the M-Class in the Tuscaloosa, Alabama, plant was increased from 65,000 to 80,000 units in 1999. To meet growing demand in Europe, we also launched production of the M-Class at the SFT (Steyr-Daimler-Puch Fahrzeugtechnik) company in Graz, Austria, in May 1999. Production is scheduled to increase to around 20,000 units in 2000.

**THE NEW MERCEDES-BENZ CL—A UNIQUE SYNTHESIS OF DRIVING PERFORMANCE AND COMFORT.** The new Mercedes-Benz CL coupe had its world premiere at the 69th Geneva Auto Show in the spring of 1999. The CL 500 and CL 600 versions have been available to customers since the fall. The Mercedes coupe is distinguished by state-of-the-art technology not available in any other automobile in the world and a design which is at once both innovative and elegant. The most important new feature is Active Body Control (ABC) as standard—a milestone in driving dynamics and comfort. Within seconds, a high-pressure hydraulic system and two powerful computers adjust the suspension and damping to driving conditions, thereby compensating almost completely for body movements while accelerating, taking curves or braking.

*The Vision SLR is the Mercedes-Benz study of a gran turismo for the 21st century. It combines style elements of the current Formula 1 "Silver Arrow" and of the SLR sports car of the fifties.*



**VISION SLR ROADSTER: A SPECTACULAR BLEND OF ENGINEERING AND DESIGN.** The vision of a Mercedes super sports car has become reality. After the SLR concept car turned heads at the beginning of 1999 in Detroit, the DaimlerChrysler Board of Management gave the go-ahead in July 1999 for production of the new sports car. Mercedes-Benz presented the spectacular SLR roadster concept for the first time at the International Auto Show (IAA) in Frankfurt/Main, Germany. Like the SLR coupe, the roadster is a high-performance sports car designed with 21st century customers in mind. It also sets new standards for future automobile development.

**SMART CITY COUPE ESTABLISHES MARKET POSITION.** From its market launch until the end of January 2000, more than 100,000 smart City coupes left the assembly line for service on Europe's roads. Weekly sales figures for the smart rose significantly throughout the year and the brand's popularity continues to grow strongly. As a result, the City coupe now occupies the number one spot in Switzerland in the micro-car segment. In Germany, it is number two. The smart is currently sold in Germany, Switzerland, Austria, Italy, France, the Benelux, in Portugal and in Spain. It will be introduced in the UK and in Japan in 2000. The successful smart cdi diesel introduced by DaimlerChrysler in December 1999 is also the least expensive three-liter car in the world.

**WORLD PREMIERE FOR THE SMART CITY CONVERTIBLE AND THE ROADSTER CONCEPT.** The smart City convertible was a big hit with the public after it was unveiled at the IAA in Frankfurt last September. The most significant technical innovation of the vehicle, which is scheduled for market launch in March 2000, is an extraordinary top that opens in three stages. Another glimpse at the future of smart was provided in Frankfurt by the innovative roadster concept. In the quest to get back to basics – in other words, driving fun – the roadster deliberately dispenses with certain accessories. Weighing in at just under 1,550 pounds, the sporty two-seater promises pure driving pleasure without cutting any corners on safety.

**MIKA HÄKKINEN WORLD CHAMPION AGAIN.** Mika Häkkinen's repeat victory in the Formula 1 driver's championship was the motor racing highlight of 1999 for McLaren Mercedes. The team's other driver, David Coulthard, took fourth position. With a more powerful engine and a new chassis, the prospects for a successful Formula 1 season in 2000 are excellent. This year we will also be active in DTM, the German touring car series, with eight Mercedes-Benz CLKs.

| **Passenger Car Sales 1999** | **1,000 Units** | **99:98 (in %)** |
|---|---|---|
| **Mercedes-Benz** | 1,000 | +10 |
| of which: A-Class | 207 | +52 |
| C-Class | 354 | -8 |
| of which: CLK | 84 | +35 |
| SLK | 53 | -3 |
| E-Class | 247 | -5 |
| S-Class/SL | 98 | +69 |
| M-Class | 90 | +41 |
| G-Class | 4 | +14 |
| **smart** | 80 | +368 |
| **Sales worldwide** | 1,080 | +17 |
| Europe | 750 | +17 |
| of which: Germany | 417 | +17 |
| Western Europe (excl. Germany) | 324 | +18 |
| of which: Italy | 82 | +33 |
| United Kingdom | 64 | +11 |
| France | 47 | +10 |
| North America | 212 | +16 |
| of which: United States (retail sailes) | 189 | +11 |
| South America | 16 | +102 |
| Far East (excl. Japan) | 15 | +7 |
| Japan (new registrations) | 50 | +24 |

# Chrysler Group
# Exciting products ahead

C H R Y S L E R ,  J E E P ® ,  D O D G E ,  P L Y M O U T H

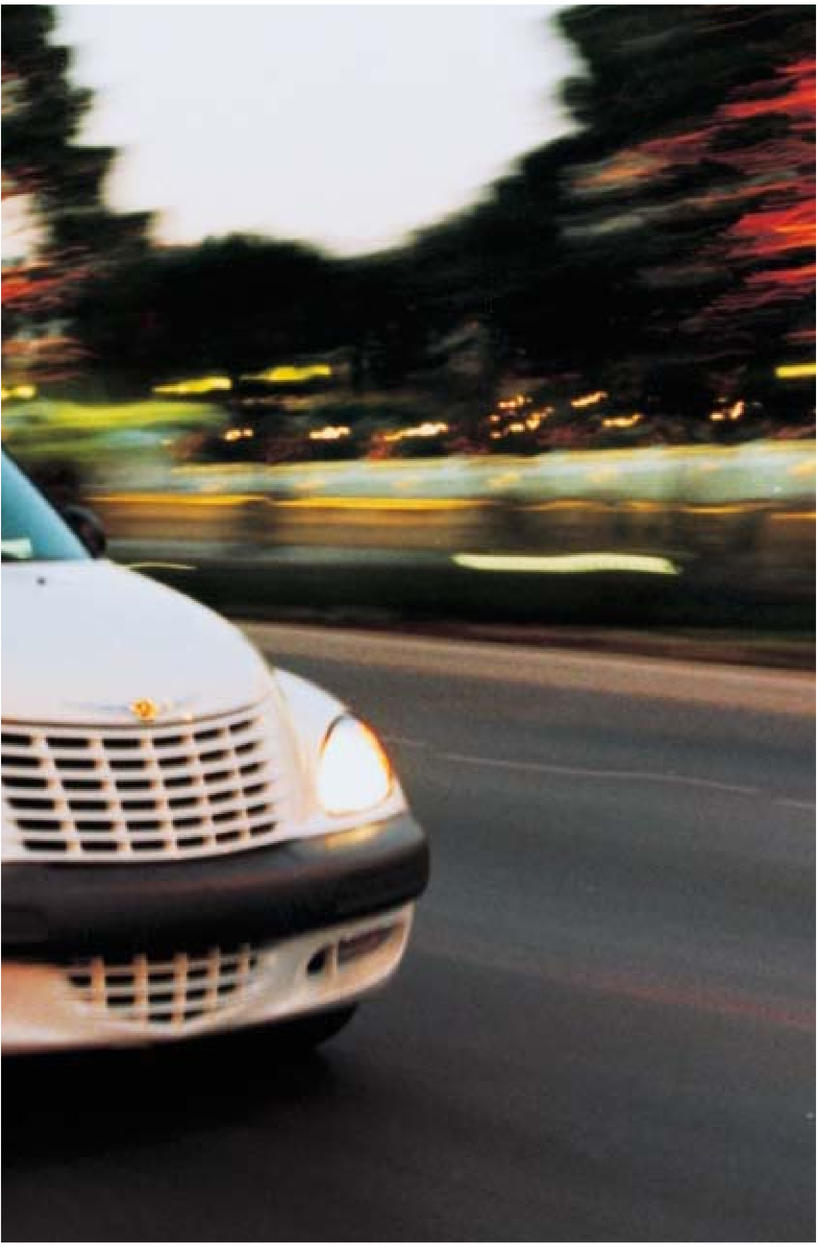
*Combining versatility and efficiency in an all-new, distinctively American design, the Chrysler PT Cruiser breaks the mold of a traditional small car to create a new flexible-activity vehicle with an innovative interior package.*



**For the Chrysler Group division, 1999 was an all-time record year in terms of revenues. And with several all-new vehicles joining the lineup, continued strong performance is expected. The division's strongest presence is in North America. The Chrysler Group's US market share in 1999 for cars and light trucks was 15%.**

| amounts in millions | 99 US$ | 99 € | 98 € |
|---|---|---|---|
| Operating Profit | 5,086 | 5,051 | 4,255 |
| Operating Profit Adjusted | 5,226 | 5,190 | 4,255 |
| Revenues | 64,534 | 64,085 | 56,412 |
| Investments in Property, Plant and Equipment | 5,261 | 5,224 | 3,920 |
| R & D | 2,014 | 2,000 | 1,695 |
| Production (Units) | | 3,208,566 | 2,982,644 |
| Sales (Units) | | 3,229,270 | 3,093,716 |
| Employees (Dec. 31) | | 129,395 | 126,816 |





**NORTH AMERICAN MARKET REMAINS FAVORABLE.** The continued strong growth of the US economy resulted in a further increase in North American sales of passenger cars and light trucks in 1999. However, the launch of many new models and greater production capacity further intensified competition which, in turn necessitated a higher level of sales incentives in the industry. These developments also affected the fast-growing SUV, pickup and minivan segments in which the Chrysler Group is a leader.

**REVENUES, SALES, OPERATING PROFIT IMPROVED.** The division achieved record revenues of €64.1 billion in 1999, representing an increase of 14% over 1998. Of total revenues, 93% were generated in the NAFTA, 4% in Western Europe and 3% in the rest of the world. Operating profit grew faster than revenues, rising 19% to €5.1 billion. Unit sales totaled 3.2 million (1998: 3.1 million). Mainly due to the economic crises in South America and the slow recovery in Asia, sales outside North America declined to 177,300, down 6% from 1998.

**CHRYSLER BUILDS ON HERITAGE OF INNOVATION.** Chrysler brand unit sales grew by 3% to 455,500 vehicles in 1999, marked by exceptional sales of the sporty 300M sedan, the brand's flagship. The luxurious LHS sedan and Sebring Convertible were first in their categories in Strategic Vision's 1999 Total Quality Awards, based on an independent research firm's survey of the buying, owning and driving experience of more than 30,000 customers. Strong sales of the Chrysler Town & Country minivan, a luxury car alternative, continued.

The 2001 Chrysler PT Cruiser, a blend of retro and contemporary design, will debut in dealerships in spring 2000. The Cruiser combines nimble city handling with the interior space and functionality of a much larger vehicle. As a part of the brand's global expansion, the Chrysler 300M will be available in Japan by mid-2000 and a right-hand-drive PT

*The award-winning Dodge Dakota Quad Cab is the newest entry into the brand's truck lineup. It offers room for six passengers, a powerful V-8 engine and the largest pickup bed of any four-door compact pickup truck.*



Cruiser will be on sale in Japan and Europe by year-end. The withdrawal of the Plymouth brand at the close of the 2001 model year is part of a strategy for sharpening the focus of the division's brands and expanding the Chrysler brand globally.

**JEEP UNIT SALES CONTINUED TO GROW.** Jeep sales reached an all-time high in 1999, totaling 680,700 units, up 20%. Leading the way was the Grand Cherokee, with a 41% increase. Completely redesigned and launched in September 1999, the Grand Cherokee was named North American Truck of the Year by a panel of independent auto journalists. More than two million of them have been built since 1992.

Outstanding products, strong worldwide brand recognition and an aggressive customer-relationship marketing effort keep the Jeep brand prospering. For more than 40 years, Jeep Jamborees have provided owners an opportunity to tackle challenging off-road trails across North America. Celebrating its sixth anniversary in 2000, Camp Jeep will be a three-day, action-packed gathering of Jeep owners. In addition, Jeep 101 events provide Jeep owners and prospective owners an opportunity to experience Jeep capability first-hand. Each year, more than 50,000 customers participate in these programs.

**DODGE STANDS FOR PERFORMANCE.** A sales increase of 4% in 1999 to 1,810,900 vehicles validates the continuing strength of the performance-oriented Dodge brand. The latest addition is the Dodge Dakota Quad Cab, with six-passenger seating, a V-8 engine and the largest pickup bed of any four-door compact pickup. The popular Dakota has been named J.D. Power & Associates' most appealing compact pickup three years in a row and was first in its class in Strategic Vision's 1999 Total Quality Awards and J.D. Power's Initial Quality Study. Strong sales of the Ram pickup, Durango sport-utility vehicle, Caravan minivan and Intrepid sedan *(Family Circle* magazine's Family Car of the Year) reflect the depth of the Dodge brand, while the Viper is the ultimate American supercar.

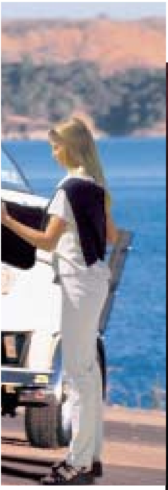
**MINIVAN SUCCESS DRIVEN BY CONTINOUS IMPROVEMENT.** Sixteen years after inventing the minivan, the company celebrated the sale of its 8-millionth minivan worldwide in 1999. A new generation of Chrysler and Dodge minivans was unveiled at the 2000 North American International Auto Show in Detroit. The new minivans, which will be launched on the market in fall 2000, offer sleeker styling, enhanced power trains and many new industry-first features, including a power-up and power-down liftgate, power dual sliding doors and a variable central console. The division enjoys approximately 40% of the North American minivan market. Chrysler minivans have received more than 130 awards.

**INVESTING IN GROWTH.** The division is investing in several of its facilities to expand capacity and reduce product-development time. Construction of a new $1.2 billion (€1.2 billion) Jeep assembly facility in Toledo, Ohio, is under way. The St. Louis North plant in Missouri is undergoing expansion and upgrade for assembly of the popular Dodge Ram Quad Cab.

Investment in expanding power train manufacturing operations includes a $624 (€620) million modernization of the Kenosha (Wis.) engine plant and a $260 (€258) million upgrade to its Trenton (Mich.) engine plant. The company is also building a new $750 (€745) million V-6 engine plant in Detroit, near the V-8 plant built in 1998.

Construction is also under way of a full-size aero/acoustics wind tunnel at Auburn Hills, which will be used for evaluation of clay models early in the development stage to shorten design time. Ground was also broken in 1999 for a new Quality Center in Auburn Hills, designed to enhance synergies with engineers and suppliers. A new Corrosion Test Facility at the Chelsea (Mich.) proving grounds will simulate 10 years of corrosion conditions on body parts and components and reduce a test schedule from 18 to 6 months.

**AN EYE TO THE FUTURE.** Each year, Chrysler, Dodge and Jeep concept vehicles are produced to project the division's vision of its future vehicles. One example is the Chrysler Java, which debuted at the 1999 Frankfurt International Auto Show. Compact in length, the Java features big benefits for




*Jeep Jamborees, Camp Jeep and Jeep 101 events provide customers with an opportunity to experience the off-road capability of their vehicles. Each year, more than 50,000 Jeep owners participate in these programs.*

passengers through its tall architecture and panoramic seating. At the 2000 North American International Auto Show in Detroit, the division unveiled four new concepts: the Chrysler 300 Hemi C rear-wheel-drive convertible; the Dodge MAXXcab, a four-door pickup with a short bed and car-like interior; the Jeep Varsity, a small sport-utility with the refined look of a European car; and the Dodge Viper GTS/R, a step toward the next generation of muscle cars.

**E-COMMERCE GROWTH.** The explosive growth of e-commerce capabilities provides substantial opportunities. The Chrysler Group division is establishing an internal “e-Connect” organization that will coordinate and communicate its entry into a variety of e-commerce business-to-business and business-to-consumer initiatives. Over the last two years, the division has developed a fully integrated and networked Web infrastructure that will allow it to move with industry-leading speed and efficiency further into the e-commerce arena.

**FIVE STAR CUSTOMER SERVICE.** The company sharpened its focus on customer service in 1999 by bolstering its trademark Five-Star process for ensuring customer-service excellence. A national advertising campaign underlined dealers’ ongoing commitment to providing well-trained employees, consistent, customer-focused processes, and clean, efficient facilities. In addition, the division launched Five Star Market Centers in 1999, a web-based ordering service for reducing dealership expenses.

**A FOCUS ON SAFETY.** In 1999, DaimlerChrysler was the first automaker to offer its customers in the US free child-safety seat inspections. Through a partnership with Fisher Price Inc. and the National Safety Council, the “Fit for a Kid” service is more than doubling the number of certified child-safety seat inspectors in the US and is creating the capacity to inspect and ensure proper installation of 800,000 seats annually.

**SUCCESS ON THE TRACK.** The Dodge brand’s presence in motorsports is growing. In 2001, the brand will return to NASCAR Winston Cup racing, which attracted more than 10 million spectators and 112 million TV viewers in 1999. The Dodge Viper road racing program has won the North American Super Touring Series, the LeMans 24 Hours twice and the FIA GT2 Championship three times. Dodge Ram teams are frequent winners in the NASCAR Craftsman Truck Series. And in cooperation with DaimlerChrysler Team Mopar engineers, driver Mark Kinser won the 1999 World of Outlaws sprint car racing championship.

| Vehicle Sales 1999 | 1,000 Units | 99:98 (in %) |
|---|---|---|
| Total | 3,229 | +4 |
| of which: Passenger cars | 906 | -3 |
| Trucks | 741 | +3 |
| Minivans | 682 | -1 |
| SUVs | 900 | +20 |
| United States | 2,693 | +6 |
| Canada | 268 | +3 |
| Mexico | 91 | -5 |
| Rest of the world | 177 | -6 |

## Commercial Vehicles

# Growth continues

M E R C E D E S - B E N Z ,
F R E I G H T L I N E R , S T E R L I N G S E T R A ,
T H O M A S B U I L T B U S E S

*Freightliner, the No.1 supplier of heavy duty trucks in North America, offers the most modern family of trucks and the largest selection of cabs, sleepers, and component options in the industry. Sterling was founded by Freightliner Corporation in 1998. Masterful engineering and attention to detail are qualities that enable Sterling to create an impressive range of hard-working, long-lasting professional trucks and tractors.*



**The DaimlerChrysler Commercial Vehicles division is the world's leading producer of commercial vehicles. It is also an internationally-recognized manufacturer of top-quality components. Our global production and development spans locations in Europe and North and South America. In 1999 our success continued. Thanks to a fresh and innovative product line, sales and revenues rose to record levels for the sixth consecutive year. We were also able to further boost operating profit. The Commercial Vehicles division was particularly successful in North America and was also able to strengthen its market position in Europe.**

| amounts in millions | 99 US$ | 99 € | 98 € |
|---|---|---|---|
| Operating Profit | 1,075 | 1,067 | 946 |
| Revenues | 26,882 | 26,695 | 23,162 |
| Investments in Property, Plant and Equipment | 775 | 770 | 832 |
| R & D | 833 | 827 | 714 |
| Production (Units) | | 551,473 | 492,643 |
| Sales (Units) | | 554,929 | 489,680 |
| Employees (Dec. 31) | | 90,082 | 89,711 |



**MARKETS IN WESTERN EUROPE AND NORTH AMERICA CONTINUE TO DEVELOP FAVORABLY.** While the commercial vehicle markets of Western Europe and North America continued to experience favorable growth, demand in South America fell considerably as a result of the economic crisis affecting the region. Markets also performed poorly in some countries of Southeast Asia, Turkey and Eastern Europe.

**GROWTH CONTINUED.** The Commercial Vehicles division continued growing in 1999. Unit sales and revenues rose to record levels for the sixth consecutive year. Revenues in 1999 increased by 15% to €26.7 billion. Growth was particularly vigorous in the US, where revenues rose by 53% to €9.2 billion. Germany also posted growth (+11% to €7.0 billion), as did Western Europe (excluding Germany), where revenues increased by 12% to €6.1 billion. Worldwide sales rose to 554,900 (1998: 489,700) trucks, vans and buses of the Mercedes-Benz, Freightliner, Sterling, Setra and Thomas Built Buses brands. As a result of buoyant demand in North America and Western Europe, the division was able to slightly boost operating profit from €0.9 billion to €1.1 billion.

In October 1999, we restructured the division, creating five business units with individual worldwide responsibility for their brands and products: Mercedes-Benz Trucks; Mercedes-Benz Vans; Mercedes-Benz/Setra Buses; Freightliner, Sterling, Thomas Built Buses; and Powertrain.

**HIGHLY SUCCESSFUL YEAR FOR MERCEDES-BENZ TRUCKS.** In the segment for vehicles over six metric tons, Mercedes-Benz produces trucks for long-distance and local shipping, the construction industry and for special uses. The vehicles in the European product line—Actros, Atego, Econic and Unimog—are notable for their economy, long maintenance intervals, and

*The new Mannheim Customer Center, which opened on July 19, 1999, is not only a stimulating source of information, but also allows customers a look at the production process. This engine center sets the standard for other Powertrain centers.*



excellent safety and high environmental standards. In 1999 the Atego was voted Truck of the Year, as was the Actros in 1997. In 1999 new registrations of Mercedes-Benz trucks throughout Western Europe reached 79,400 units, significantly exceeding last year's high volume. As a result, we were able to increase our market share to 25% (1998: 24%) in the segment above six metric tons, further consolidating our leading position in Western Europe.

Now that our product line has been completely renewed, we are enhancing customer service. At the beginning of the year, we introduced FleetBoard®, an innovative fleet management system to help customers optimize vehicle use and boost competitiveness.

As a result of unfavorable economic conditions in South America, sales in the region fell to 44,600 units in 1999 (1998: 57,700). Nevertheless, in the market for vehicles over six metric tons, we were able to defend our dominant position in Brazil (36%, 1998: 36%) and Argentina (36%, 1998: 37%). Our most important market launch last year was the 1938/FSK—the first Mercedes-Benz cab-over-engine truck to be manufactured in Brazil.

**MERCEDES-BENZ VANS LEAD IN EUROPE.** Mercedes-Benz vans have enjoyed a commanding position on the European market since 1997. In the Commercial Vehicle of the Year awards, 1st, 2nd and 3rd places were taken by the successful Sprinter (2.5–4.6 metric tons), the Vito and V-Class (up to 2.6 metric tons) and the Vario (4.8–7.5 metric tons), which offer ideal versions for both commercial and private applications.

In 1999, both the Vito and the V-Class underwent substantial model updates. The new CDI engines have been particularly popular among customers. In the year under review, a total of 220,900 Mercedes-Benz vans (1998: 216,500) were sold worldwide. The most important markets for the Vans unit were Germany (69,300 vehicles; up 5%), and the other Western European countries (119,800; up 7%). On the strength of this performance, market share rose to 18.9% (1998: 18.4%), further consolidating our leading position in Europe. In the wake of the economic crises in Brazil and Argentina, sales outside Western Europe decreased significantly to 31,800 (1998: 38,800) units.

**VANEO COMPACT VAN EXTENDS PRODUCT LINE.** The Vaneo compact van will extend our product line into the fast-expanding sector for vehicles under 2 tons. With its compact exterior dimensions, the Vaneo can be used commercially or as a family vehicle. It will be launched at the end of 2001.

**LEADING MANUFACTURER OF BUSES WORLDWIDE.** In 1999 DaimlerChrysler sold a total of 44,700 complete buses and bus chassis (1998: 32,600). Growth in the markets of Western Europe and North America helped offset a decrease in sales in South America. In 1999, we were once again the world's leading manufacturer of buses over eight metric tons.

EvoBus GmbH, a 100 percent subsidiary of DaimlerChrysler, is responsible for our bus operations in Western Europe. In the year under review, EvoBus' sales of complete buses and bus chassis fell slightly to 8,000 units. Of this total, the Mercedes-Benz brand sold 5,200 units (down 8%), with Setra accounting for 2,800 units (up 8%). As a result, EvoBus achieved a market share of 26%. The two brands were therefore able to retain their market leadership in Western Europe (including Turkey). Among the major product launches in 1999 were the Mercedes-Benz Travego travel coach and the S 317 GT-HD from Setra. Our buses also did extremely well in the Commercial Vehicle of the Year awards, capturing two 1st, two 2nd and two 3rd places.

**FREIGHTLINER AND STERLING GOING FOR GROWTH.** The greatest growth in the year under review was again achieved in the North America region. On the strength of an attractive product line, we were able to profit significantly from the positive development of the North American market last year. As a result, we further consolidated our position as the leading manufacturer of heavy trucks in North America. Total sales for the region amounted to 193,000 units for the year under review (1998: 125,600). In the US, in the segment for Class 8 heavy trucks (15 metric tons and up), the combined market share of our Freightliner and Sterling brands rose from 33.1% in 1998 to 37.3% in 1999. Our new Sterling brand alone achieved a market share of more than 5%. Sales were particularly successful in the segment for Class 6 and 7 medium-weight trucks (8.8–15 metric tons), where we were able to improve on the substantial gains made in 1998. Total US sales in this segment reached 41,400


*The Mercedes-Benz Vito F offers numerous new attractive features. With its spacious, variable interior and its excellent ride, the Vito F perfectly suits the needs of sporty individuals, young families, or business people looking for a multi-purpose vehicle.*



units (up 45%) in 1999, which represents a market share of 23.1% (1998: 19.5%). Thomas Built Buses Corporation, which Freightliner acquired in 1998, contributed 14,500 vehicles to total unit sales in North America. Thomas Built Buses is one of the leading manufacturers of bus superstructures in the NAFTA region.

In order to further strengthen DaimlerChrysler's position in the global bus business, our subsidiary, Freightliner, formed a joint venture with Mayflower Corporation plc. of the UK, to produce buses for the North American market.

**POWERTRAIN BUSINESS UNIT: A POWERFUL SYSTEM SUPPLIER.** The Powertrain business unit (PTU) manufactures and markets engines, transmissions, axles and steering systems. The business unit's most important customers are the commercial vehicle assembly plants within DaimlerChrysler itself. In 1999, the business unit supplied components worth €3.2 billion to customers at DaimlerChrysler and external customers. Following its first independent appearance at a trade fair (the 1998 International Auto Show in Hanover, Germany), the PTU business unit has been able to market its products more successfully to customers outside of DaimlerChrysler. The acquisition of Atlantis Foundries in South Africa marks a further stage in the drive to expand PTU's international production collaboration and boost its competitiveness on the world market.

**SERVICE PACKAGES IN DEMAND.** Mercedes-Benz CharterWay, a joint venture between our Services division, debis, and the Mercedes-Benz Commercial Vehicles division, offers its customers a comprehensive service package including everything from repairs and maintenance to professional fleet management. Since CharterWay was founded in 1992, more than 40,000 vehicles have been serviced in this way. By the end of 1999, CharterWay was active in 20 countries.

**NETWORKING CUTS COSTS.** In 1999, we intensified networking among various production and development facilities within the Commercial Vehicles division. This has helped us to fur-ther reduce costs and improve our competitive position. For example, the first Freightliner models with Mercedes-Benz engines were unveiled in March 1999 at the Mid-American Trucking Show. The new Sterling Acterra, which is scheduled for market launch in early 2000, will be equipped with four-cylinder and six-cylinder Mercedes-Benz diesel engines. A further example is the new generation of medium and heavy trucks in South America, which will be equipped with the cab used for the European Atego. The new business structure will give additional impetus to this process of integration.

| Commercial Vehicles Sales 1999 | 1,000 Units | 99:98 (in %) |
|---|---|---|
| **World** | 555 | +13 |
| of which: Vans (including V-Class) | 226 | +3 |
| Trucks | 282 | +20 |
| Buses | 45 | +37 |
| Unimogs | 2 | -25 |
| Europe | 287 | +4 |
| of which: Germany | 114 | +7 |
| Western Europe (excl. Germany) | 161 | +9 |
| of which: France | 30 | +13 |
| United Kingdom | 29 | +5 |
| Italy | 21 | +24 |
| NAFTA | 193 | +54 |
| of which: USA | 172 | +59 |
| South America | 45 | -23 |
| of which: Brazil | 30 | -24 |
| Asia | 11 | -12 |

# Automotive Council
# Sales and Marketing Council



**FOCUS ON DEVELOPMENT AND PRODUCTION.** The development of new products is one of the core processes in the automotive industry. Designing innovative vehicles with a high level of safety and quality in a short time and simultaneously ensuring the profitability of the product—that is the demanding goal of every manufacturer.

DaimlerChrysler faces an additional challenge: harnessing its outstanding research and technology, purchasing and human resource capabilities; linking the three automotive divisions of the company and then utilizing the enormous potential that results.

DaimlerChrysler has an extremely broad range of products and brands that includes passenger cars of the Mercedes-Benz and smart brands, passenger cars and trucks of the Chrysler, Jeep and Dodge brands and the various trucks, vans and buses of the Commercial Vehicles division.

The goal of the **AUTOMOTIVE COUNCIL** (AC) and its members from each of the three automotive divisions is to guide, coordinate and standardize activities at all stages of the product creation process, while at the same time preserving the identity and uniqueness of our brands. Starting points for achieving this include an integrated engine and components strategy, selective and targeted transfers of innovations, the development of common standards and the optimization of production through best-practice comparisons of the various locations and their production philosophies.

**FOCUS ON THE CUSTOMER.** The second core process of the value-added chain begins with the responsibility to the customer and comprises the production, sales and service of vehicles. This also includes professional support and communication with customers and the entire range of after-sales services.

Substantial synergy savings can also be realized by coordinating the interaction of the three automotive divisions and making joint use of the worldwide sales network.

**THE SALES AND MARKETING COUNCIL** (SMC) has a task analogous to that of the Automotive Council—making decisions affecting all divisions with respect to the sales network, multiple-brand strategy and sales and after-sales activities in general.

The Sales and Marketing Council manages and controls the sales process through the setting of agreed goals.

**CREATING VALUE.** The Automotive Council and the Sales and Marketing Council, both Board of Management committees, will contribute substantially to our efforts to market more attractive products of specific brands more quickly worldwide, further increase quality in sales and services, and raise productivity and efficiency. This will help us to create value, satisfy the desires of our customers in every respect, once again turning potential into performance.

## Automotive Council
Development and Production

**Hans Joachim Schöpf**
*Development*
*Mercedes-Benz Passenger Cars & smart*

**Georg Weiberg**
*Development*
*Mercedes-Benz Vans*

**Thomas C. Gale**
*Product Development,*
*Design Chrysler Group &*
*Passenger Car Operations*

**Eckhard Cordes**
*Corporate Development*
*& IT Management*

**James P. Holden**
*Chrysler Group*

**Jürgen Hubbert**
*Mercedes-Benz Passenger Cars*
*& smart*

**Dieter Zetsche**
*Commercial Vehicles*

## Sales and Marketing Council
Sales and Service

**Larry Baker**
*MOPAR*

**Theodor R. Cunningham**
*Global Sales*
*and Marketing*
*Chrysler Group*

**Günter Egle**
*Global Parts Center*
*Mercedes-Benz*

**Benito de Filippis**
*Sales and Marketing*
*Mercedes-Benz Vans*

**Joe Hilger**
*Service Chrysler*

**Joachim Schmidt**
*Mercedes-Benz*
*Passenger Cars & smart*
*Sales and Marketing*

**Harald Schuff**
*Operations and Planning*
*Sales Organization*
*Europe/Rest of World*
*excl. NAFTA*

**Hans Tempel**
*Business Unit*
*Mercedes-Benz Trucks*
*Sales and Marketing*

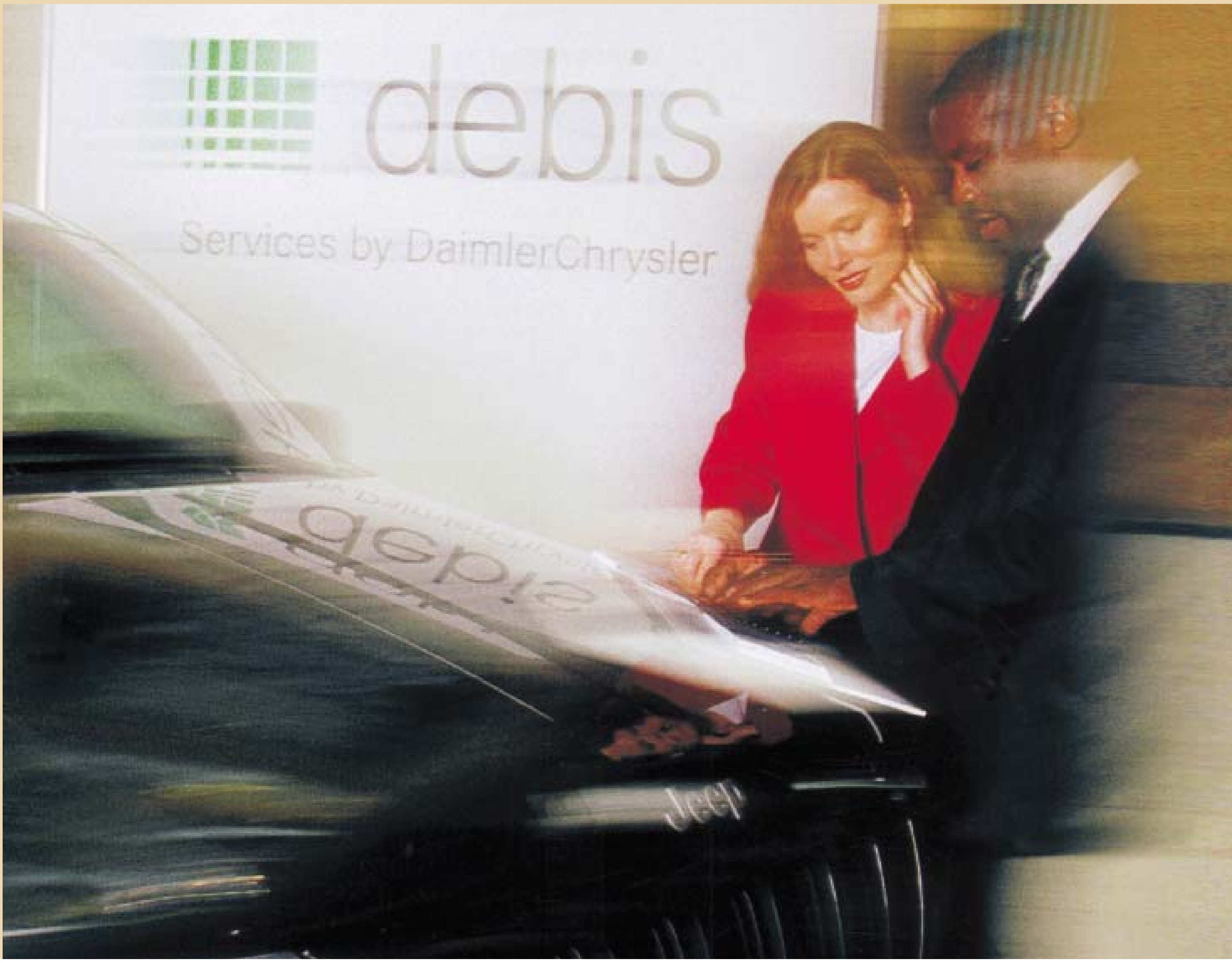
**Steve Torok**
*Operations and Planning*
*Sales Organization NAFTA*

**Ulrich Walker**
*Global Service Mercedes-Benz*

## Members of the Board of Management
DaimlerChrysler AG

## Services
# Dynamic growth

*In its tenth financial year, DaimlerChrysler Services (debis) AG continued its success story, achieving new record figures for revenues, earnings and work force in the future-oriented areas of financial services and IT services. For debis, 1999 was typified by further internationalization.*



**debis, the Services division of DaimlerChrysler, took full advantage of the growth potential of the services market in 1999 and once again posted outstanding results. With a managed portfolio of €99.2 billion, debis is one of the world's leading financial services companies outside of the banking and insurance sector. debis Systemhaus is one of Europe's leading manufacturer-independent IT services companies.**

| amounts in millions | 99 US$ | 99 € | 98 €*) |
|---|---|---|---|
| Operating Profit | 2,053 | 2,039 | 985 |
| Operating Profit Adjusted | 1,033 | 1,026 | 949 |
| Revenues | 13,023 | 12,932 | 9,987 |
| Financial Services | 10,126 | 10,056 | 7,772 |
| IT Services | 2,962 | 2,941 | 2,244 |
| Investments in Property, Plant and Equipment | 326 | 324 | 285 |
| Employees (Dec. 31) | | 26,240 | 21,272 |

*) 1998: excluding Telecom Services.

**GROWTH CONTINUES.** The Services division grew for the tenth consecutive year in 1999, with revenues increasing by 29% to €12.9 billion. 42% of our revenues were generated in the US, 32% in Germany and 12% in the European Union, excluding Germany. Earnings were also up in 1999, with operating profit increasing to €2.0 billion (1998: €1.0 billion); after adjusting for extraordinary effects, it actually rose by 8% to €1.0 billion. These effects include non-recurring income of €1.1 billion from the disposal of 42.4% of the shares in debitel, as well as one-time expenses arising from the sale of receivables from previos years carried out in connection with the integration of the financial services business.

Substantial investment would have been required to continue successfully operating debitel, the telecommunications service provider, as a unit of DaimlerChrysler. In line with our value based management system, however, we decided to sell the majority of our debitel shares in order to create additional value.

**A COMPREHENSIVE PACKAGE OF FINANCIAL SERVICES.** The core business of the Financial Services business unit comprises comprehensive financial services for all DaimlerChrysler vehicle brands plus other activities such as brand-independent fleet management. Non-automobile financial services are also an important business area. Such capital services include financing concepts and investment fund solutions for aircraft, rail vehicles, ships, real estate and infrastructure projects. In addition, our countertrade department provides complete customized solutions for cross-border trade and projects, while our insurance activities include brokerage services and direct insurance.

**INTEGRATION AND INTERNATIONALIZATION.** In January 1999, all of DaimlerChrysler's financial services activities were consolidated into debis. Subsequently, the former Mercedes-Benz, debis and Chrysler Financial Services leasing companies were merged in our most important markets. This created great potential for synergy savings. Integration in all of our markets will be completed in 2000. We also expanded internationally in the year under review. At the end of 1999 the Financial Services business unit had more than 100 companies operating in 35 countries around the world.

**STRONG GROWTH IN FINANCIAL SERVICES.** Key indicators for the Financial Services unit were positive in 1999. We set records for both contract volume (€99.2 billion; 1998: €70.0 billion) and new business (€50.7 billion; up 44%). The capital services portfolio increased to €7.5 billion (1998: €4.9 billion), and the outlook for capital services remains very positive. Countertrade volume was up 43% to €486 million and insurance policy volume increased by 16% to €872 million.

**IT SERVICES: COMPLETE SOLUTIONS.** Our IT Services customers benefit from our high-grade services, ranging from consulting (Plan) to the development of software solutions and system integration (Build) to applications, data centers, networks and desktops (Run). We offer industry-specific, complete solutions, an advantage which has made us one of the leading European companies covering all areas of information management. The IT Services business unit once again posted dynamic growth in 1999.

An attractive range of services led to revenues increasing by 31% to €2.9 billion. Growth outside Germany was particularly strong, with business volume increasing from €562 million to €876 million. Customers outside the DaimlerChrysler Group accounted for 75% of the business unit's total revenues in 1999 (1998: 69%).

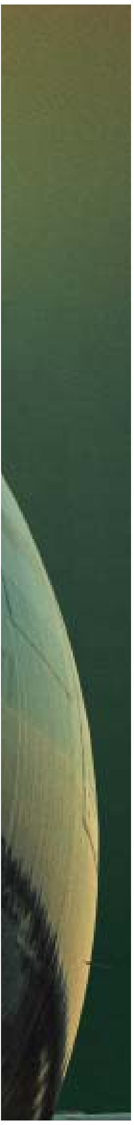
The strategically targeted acquisitions we made in 1999 will help us expand our range of services even further. The acquisition of the French IT company, "Soleri", represents an important step toward consolidating our position in France. Other companies were established in the US, the Netherlands, Belgium, Hungary, Spain and Austria. Our most recently established subsidiary was set up in Australia.

## Aerospace
# A new dawn over Europe

*As the largest sector of Dasa, DaimlerChrysler Aerospace Airbus GmbH is responsible for our Airbus activities. Dasa holds a 37.9% stake in the European Airbus consortium, which in 1999 was the world's number two for passenger aircraft sales, and for the first time, number one for incoming orders. The Airbus family, which is constantly being expanded with new and innovative models, offers attractive products to customers all over the world.*

**DaimlerChrysler Aerospace (Dasa) was once again one of the most profitable companies in its sector. Key areas of business remain our holdings in Airbus Industrie and Eurocopter, the manufacture and marketing of engines and our involvement in numerous European aerospace projects. The merger of Dasa with the French company, Aérospatiale Matra, and the Spanish company, CASA, to form the European Aeronautic Defence and Space Company (EADS) has created new opportunities. EADS will be the largest aerospace company in Europe and the third-largest in the world. Dasa will also be joining forces with Matra Marconi Space (MMS) to create Astrium, a new space-technology company.**

| amounts in millions | 99 US$ | 99 € | 98 € |
|---|---|---|---|
| Operating Profit | 735 | 730 | 623 |
| Revenues | 9,255 | 9,191 | 8,770 |
| Commercial Aircraft | 3,363 | 3,340 | 2,962 |
| Helicopters | 710 | 705 | 680 |
| Military Aircraft | 1,085 | 1,077 | 957 |
| Space Infrastructure | 596 | 592 | 582 |
| Satellites | 461 | 458 | 645 |
| Defense and Civil Systems | 1,736 | 1,724 | 1,729 |
| Aero Engines | 1,754 | 1,742 | 1,660 |
| Investments in Property, Plant and Equipment | 338 | 336 | 326 |
| R & D | 2,019 | 2,005 | 2,047 |
| Employees (Dec. 31) | | 46,107 | 45,858 |



**OUTLOOK REMAINS FAVORABLE.** Due to the high level of orders on hand we significantly stepped up the production of civil aircraft in 1999. Although new orders did not achieve the extremely high level of the previous year, for the first time Airbus received more aircraft orders than any other manufacturer in the world. Business also continued to develop favorably in the aeroengines sector. In the defense sector, on the other hand, government budgetary constraints led in some cases to a substantial decline in orders. Nevertheless, the year under review brought us the first contract for series production of the new Tiger helicopter.

**BUSINESS VOLUME AND OPERATING PROFIT RISE.** In 1999, the Aerospace division boosted revenues by 5% to €9.2 billion. The chief engine of growth was the Commercial Aircraft business unit, where increased sales of aircraft and aircraft components for the Airbus program led to an above-average growth rate of 13%. Strong increases were also recorded in the Military Aircraft and Aeroengines business units. On the strength of a sharp increase in revenues, operating profit rose 17% to €730 million, surpassing the high figure recorded in 1998.

**INCOMING ORDERS CONTINUE TO OUTPACE REVENUES.** While incoming orders (€9.9 billion) were higher than total revenues in 1999, they were significantly down from the figure for 1998 (€13.9 billion). This decrease was primarily due to the fact that the previous year was exceptional: in 1998 a boom in the civil aircraft market led to a very high volume of Airbus orders and the contracts awarded for series production of the “Typhoon” Eurofighter were another factor which disproportionately inflated orders for that year. As expected, further cuts in government budgets also had an impact on the level of incoming orders at the Defense and Civil Systems business unit. As a result of authorization for the first series batch of the Tiger military helicopter, incoming orders for the Helicopters business unit doubled over the previous year.

**EADS—NEW HORIZONS FOR EUROPEAN AEROSPACE.** In the fourth quarter of 1999, we signed contracts to merge Dasa, the French Aérospatiale Matra and the Spanish CASA to form the European Aeronautic Defence and Space Company (EADS)—Europe’s largest aerospace company. The new company is scheduled to begin operations in the summer of 2000. We and our French partners will each hold 30% of EADS, with SEPI, the Spanish state holding company, taking a 5.6% stake. Current plans call for a public offering of the remaining 34.4% of the equity. Annual revenues of €21 billion and a workforce of more than 96,000 employees will make EADS the world’s third-largest aerospace company. With a 80% stake in Airbus Industrie, EADS will be the second-largest manufacturer of civil aircraft in the world. It will also be the world’s leading helicopter manufacturer (holding 100% of Eurocopter). In addition, the new company will be the market leader for carrier rockets and a leading supplier of satellites, military aircraft and defense technology.

**ASTRIUM—JOINING FORCES IN THE SPACE SECTOR.** Contracts signed between Dasa, Aérospatiale Matra and Marconi Electronic Systems will further boost the competitiveness of the European aerospace industry. Matra Marconi Space (MMS) and Dasa are scheduled to merge their space systems businesses in the first half of 2000. With more than 8,000 employees and revenues of €2.25 billion, Astrium, the new joint venture, will be the biggest space-technology company in Europe and a leading global player. We anticipate that Alenia Spazio, a subsidiary of the Italian company Finmeccanica, will also join Astrium, further strengthening the company’s position on the international market.

# Other Industrial Businesses
# Rail Systems
# Automotive Electronics
# MTU/Diesel Engines

**RAIL SYSTEMS: NEW STRUCTURE.** Revenues at the Rail Systems business unit were up 7% to €3.6 billion in 1999. Earnings remained negative, however. The acquisition of the 50% share of Adtranz held by ABB is enabling DaimlerChrysler to proceed more rapidly and effectively with the necessary restructuring at Adtranz. In December 1999, Adtranz began a comprehensive restructuring program that is expected to achieve a turnaround at the rail systems company in 2000. An important element of this program is targeted cost-cutting achieved through the elimination of excess capacity, concentration on key areas of expertise and a more efficient production and organizational structure.

The first CRUSARIS Intercity trains went into service in Norway, Switzerland and Great Britain during the year under review. Adtranz was responsible for 50% of the total contract volume for the production of the ICE3 high-speed train, which sets new technical standards in its segment. The People Mover automated transport system from Adtranz also went into operation at the Rome and Singapore airports. In China, the business unit was involved in the electrification of a 600-mile rail line. Adtranz also supplied subway and urban light rail systems for Lisbon, Stockholm and Bucharest and several cities in Germany.

| amounts in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| **Rail Systems*)** | | | |
| Revenues | 3,587 | 3,562 | 3,316 |
| Incoming Orders | 3,354 | 3,331 | 4,181 |
| Employees (Dec. 31) | | 23,239 | 23,785 |
| **Automotive Electronics** | | | |
| Revenues | 896 | 890 | 754 |
| Incoming Orders | 1,053 | 1,046 | 760 |
| Employees (Dec. 31) | | 5,173 | 4,638 |
| **MTU/Diesel Engines** | | | |
| Revenues | 966 | 959 | 921 |
| Incoming Orders | 1,022 | 1,015 | 914 |
| Employees (Dec. 31) | | 5,885 | 5,893 |

*) 50% consolidation in 1998; comparable figures (100%) shown in the table.



**AUTOMOTIVE ELECTRONICS: STILL BOOMING.** The Automotive Electronics business unit (TEMIC) is a leading supplier of electronic systems for engines, safety systems and applications that enhance driving comfort. TEMIC has development, production and sales locations in strategic markets in Europe, North America and Asia. Our customer base includes most automobile manufacturers around the world. Operations focus on seven areas: drivetrains and chassis, ABS, occupant safety, sensor systems, comfort electronics, electric motors and intelligent distance-control systems. Each operates as an independent unit.

In 1999, the Automotive Electronics business unit posted an 18% increase in revenues to €0.9 billion. Incoming orders jumped by 38% to €1.0 billion. The positive business outlook at TEMIC led us to hire 535 employees.

New applications have been made possible by modern automotive electronics. For example, TEMIC produces a continuous velocity transmission (CVT), an adaptive cruise control (ACC), telematics applications and systems that are now controlled by electronics instead of hydraulics. We also anticipate strong growth for our voice recognition system. TEMIC took over this area from Dasa in 1999, making it the world leader in voice control systems.

**MTU/DIESEL ENGINES: TECHNOLOGICAL LEADERS.** The MTU/Diesel Engines business unit increased revenues to €1.0 billion in 1999 (1998: €0.9 billion). Revenues within Europe climbed 8% to €600 million. Long-standing business relations with our Asian partners also led to higher sales. The increase resulted from the timely processing of defense procurement orders already on the books, as well as growth in the non-defense sector. The biggest contributors to revenues in 1999 were sales of propulsion systems for large high-speed ferries, luxury yachts, passenger ships and navy ships. MTU/Diesel Engines' new 2000 and 4000 Series engines were augmented by additional cylinder and application variants in 1999, setting new standards for commercial markets in particular, and strengthening the position of this business unit.

The launch of new product lines in the distributed power systems segment also contributed substantially to the increase in revenues. Alongside its traditional diesel engines and gas turbines, MTU began supplying gas engines for distributed power systems for the first time in 1999. The company drew on its experience and expertise as a systems supplier in developing the ready-to-install "Powerpack"– a complete drive module for rail vehicles. In a development similar to trends in the automotive industry, rail vehicle manufacturers are increasingly turning to complete drive systems. MTU also demonstrated its technological expertise through its subsidiary L'Orange, which manufactures high-performance injection systems for diesel, heavy fuel and gas engines and the innovative common-rail systems.

## North America

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 1 | 508 | 9,180 | 1,898 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 41 | 5,167 | 59,766 | 125,549 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 11 | 508 | 10,408 | 21,623 |
| Services | – | 13 | 6,356 | 5,349 |
| Aerospace | 3 | 4 | 1,457 | 502 |
| Others | 5 | 31 | 707 | 2,944 |

## South America

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 1 | 466 | 350 | 1,330 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 4 | 23 | 780 | 1,254 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 2 | 466 | 1,346 | 11,886 |
| Services | – | 11 | 259 | 939 |
| Aerospace | 1 | 1 | 64 | 109 |
| Others | 1 | 33 | 125 | 234 |

**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, Setra and Thomas Built Buses commercial vehicles.
3. Plus a further 34,133 employees engaged in joint sales of Mercedes-Benz Passenger Cars & smart, Mercedes-Benz, Freightliner, Sterling, Setra and Thomas Built Buses commercial vehicles.

## Asia

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 4 | 629 | 3,101 | 328 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 3 | 25 | 409 | 420 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 1 | 629 | 517 | 1,246 |
| Services | – | 9 | 116 | 50 |
| Aerospace | 1 | 11 | 267 | 29 |
| Others | 4 | 76 | 407 | 1,616 |

## Europe

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 8 | 3,460 | 24,305 | 92,400 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 2 | 28 | 2,839 | 2,159 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 15 | 3,460 | 13,728 | 55,327 |
| Services | – | 140 | 6,065 | 19,114 |
| Aerospace | 25 | 34 | 7,365 | 45,467 |
| Others | 46 | 85 | 4,314 | 29,089 |

## Africa

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 2 | 259 | 677 | 3,503 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 1 | 7 | 156 | 13 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 1 | 259 | 430 | – |
| Services | – | 5 | 80 | 668 |
| Aerospace | – | 2 | 30 | – |
| Others | 1 | 17 | 23 | 151 |

## Australia/Oceania

| | Production Locations | Sales Organization Locations | Revenues in millions € | Personnel |
|---|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | – | 197 | 440 | – |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | – | 5 | 134 | – |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | – | 197 | 266 | – |
| Services | – | 4 | 56 | 120 |
| Aerospace | – | 1 | 8 | – |
| Others | 3 | 34 | 71 | 263 |

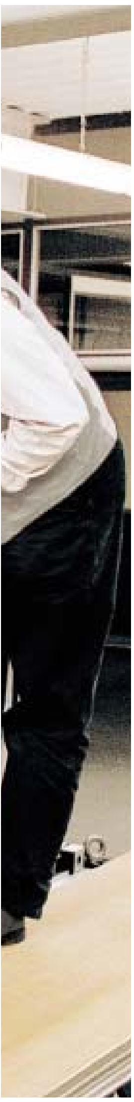
## Research and Technology
# Driving innovation

*The variable ergonomics test bench gives answers to important questions concerning the dimensions and ergonomics of future models. The state-of-the-art, computer-controlled equipment helps to considerably shorten the development time of new vehicles.*

**DaimlerChrysler's central Research and Technology department is responsible for integrated innovation and technology management. It supports the business units in the development ,of technology strategies and establishes the technological basis for innovative products and processes. Research and Technology's success is measured by the extent to which its achievements can be transferred into the development, production, sales and marketing activities of the business units.**

**SEVEN CORE FIELDS OF TECHNOLOGY.** Four megatrends will determine the future of technology at DaimlerChrysler: the demand for sustainable mobility; the use of closed production processes and customized materials; increasing global networking; and new functions based on electronics. To harness these megatrends, Research and Technology focuses on seven technology fields: Drive technologies; vehicle concepts; production technology; materials research; traffic research and telematics; information and communications technology; electronics, mechatronics and control technologies.

In 1999 we made great progress with:



**NEW CERAMIC MATERIALS TO REDUCE WEAR.** A brake that is lighter, more comfortable to use, and doesn't rust – our engineers have turned this concept into reality with a new fiber-reinforced ceramic brake disk. A true "brake for life," the so-called "CMC" brake can operate reliably throughout the entire service life of a road vehicle, aircraft or rail vehicle. CMC brake disks for wheels and axles have already demonstrated their potential in tests with ICE high-speed trains. The new disk has also proved itself in tests with motor vehicles. Following successful stationary and vehicle tests, we are now working with the vehicle development departments to get this new technology ready for series production.

**LIGHTWEIGHT SEATS FOR SERIES PRODUCTION.** A new bucket seat concept that uses carbon fiber composites will enable lightweight bucket seat design from the world of motor sports to deliver the comfort of traditional seats for the first time. A key feature is an adjustable seat back made possible by installing a joint that is both flexible and torsionally stiff between the seat bottom and seat back. This innovative seat is the product of intelligent component and sophisticated materials design.

**SOFTWARE THAT PROVIDES COMPETITIVE ADVANTAGES.** Automotive electronics software is becoming increasingly important. At the same time, sales and marketing software systems tailored to the needs of customers and dealers are providing our company with a distinct competitive advantage. To further promote these areas, DaimlerChrysler Research launched an innovation campaign in software engineering in 1999. Together with the development departments at the passenger cars divisions and the central Sales and Marketing department, it established so-called "Software Experience Centers." Although such centers operate independently and have their own resources, they are also closely integrated with ongoing development projects. The result is an extensive exchange of knowledge and experience in software development and software quality management.

Software must be systematically tested if the highest standards of quality are to be ensured. To significantly reduce testing costs, we developed a model-based test for control algorithms and a fully automatic test on the basis of evolutionary algorithms. These new procedures, which we introduced last year, yielded substantial improvements in the methodology and automation of software testing.

**LONGER-RANGE BATTERY-DRIVEN VEHICLES.** Along with the development of fuel cell drives (see p. 13), we continue to move forward on battery-driven vehicles. The Electric Powered Interurban Commuter (EPIC) – an electric vehicle based on the Chrysler Voyager – has been equipped with a lithium ion battery, replacing the nickel metal hydride battery used previously. This will not only improve power and energy density significantly; it will also increase the vehicle's range and reduce costs. The project is one of the first to combine technological expertise from Auburn Hills and Stuttgart, and exemplifies the successful cooperation between our research departments.

**ENHANCING NIGHT VISION.** The high beams are on, yet drivers on the other side of the highway are not blinded by the light. Thanks to a new night-vision system developed by our engineers, this could soon become a reality. The optical-electronic system, which uses an infrared diode as a source of light, enhances vision at night and in bad weather. Working in cooperation with EvoBus, the system has been installed in a test bus, with extremely good results. The laser headlight illuminates the road up to 500 feet ahead – more than three times the distance achieved by a conventional low beam headlight.

## DaimlerChrysler and the Environment

# Commitment to environmental protection

*At the Sindelfingen factory, in addition to the legally required measurements of emissions in the ambient air, plants are also used as solvent detectors. In this greenhouse, air quality is examined using tomatoes, nasturtiums and bush beans.*

**Protection of the environment and respect for the conservation of natural resources are high priorities for DaimlerChrysler. Our environmentally compatible measures cover the entire product range and apply to the complete product life cycle, from the use of raw materials to product development, production and usage, all the way to disposal and recycling.**

**DEVELOPING A COMMON APPROACH.** Through the DaimlerChrysler merger we also intend to improve our efficiency in the area of environmental protection by enhancing expertise and adopting the best methods and procedures. Consequently, the Post-Merger Integration environmental affairs group has been developing a common approach to environmental protection, establishing a common environmental policy and leveraging existing programs.

Its efforts have focused on:

- Adoption of corporate environmental guidelines.
- Publication of a joint Environmental Report.
- Identification of best practices and benchmarking.
- Establishment of an efficient organizational structure.

**A CORPORATE COMMITMENT.** In July 1999, the following six environmental guidelines were approved by the Board of Management:

- We face the environmental challenges of the future by working continuously to improve the environmental performance of our products and operations.
- We strive to develop products which, in their respective market segments, are environmentally sensitive.
- We plan all stages of manufacturing to provide optimal environmental protection.
- We offer our customers ecologically-oriented service and information.
- We endeavor to achieve exemplary environmental performance worldwide.
- We provide our employees and the public with comprehensive information on environmental protection.

At DaimlerChrysler, environmental protection is integrated into the activities of the company at all levels. Sustainable, long-term growth can only be secured if we take care of our valuable resources. In addition, by integrating the principles expressed in the guidelines into our decision-making processes, we will create a competitive advantage for the company.

**FIRST DAIMLERCHRYSLER ENVIRONMENTAL REPORT.** The first DaimlerChrysler Annual Environmental Report was published in August 1999. The report outlines environmental projects in progress worldwide, and demonstrates the company's responsible approach to environmental stewardship. For the first time, we also had an environmental group review the reporting process and the main contents of the report and they also paid tribute to our contribution to sustainable development. This new approach had an impact on acceptance of the report among the general public. Feedback through a questionnaire enclosed with the report revealed that more than 60 percent of readers considered our report superior to other environmental reports, while 30 percent rated it as good as others.

**BEST PRACTICE.** As a result of a combined best practice and benchmarking effort between Auburn Hills and Stuttgart, nine projects have been set up. They focus on environmental management systems, auditing, performance measurement, hazardous materials and communications. These projects were selected on the basis of their potential for enhancing our environmental performance, promoting environmental standards and cutting costs, as well as their chances of success. As our initial analysis shows, there are great opportunities for mutual learning since different parts of our company provide benchmarks in different areas. To underline our commitment, in 2000 we will be introducing a company-wide award program for outstanding environmental achievements.

**CERTIFIED ENVIRONMENTAL MANAGEMENT SYSTEMS IMPLEMENTED.** Experience has shown that certification increases environmental awareness, reduces risk, conserves resources, and enhances business performance. At present, roughly half the automotive workforce operates within an environmental management system that has been certified in line with ISO 14001. DaimlerChrysler plans to have all its worldwide production facilities certified by the end of 2003. In addition, and as a next step, we have also kicked off pilot projects which focus on the integration of different management systems, including environmental, quality, and health and safety.

## Global Procurement & Supply

# Creating the world's most effective supply chain

*Teamwork with suppliers is a key source of innovation. DaimlerChrysler employee Richard Soyka (left) and Decoma employees Christina Hernandez and Chris Keyes are involved with a new plastics technology that could help make cars lighter and less expensive.*

**DaimlerChrysler's Global Procurement & Supply function is charged with creating the world's most effective supply chain. During the first year of the merger, DaimlerChrysler's automotive purchasing volume reached €84.5 billion. With extensive procurement and supply activities supporting a variety of manufacturing and distribution operations worldwide, we decided to create a new structure that would make them part of a single global organization. In 1999, the synergy targets announced for Global Procurement & Supply were significantly overachieved.**

**MAJOR ADVANTAGES OF A GLOBAL APPROACH:**

- A global organization is better able to identify best practices, implement standardized processes, and rapidly introduce improvements within the company and across its global supply base.
- One global organization means more consistent supplier management and one interface between the company and its suppliers.
- By leveraging the combined output of all DaimlerChrysler business units, the new global organization is in a stronger position to select and utilize the services of the world's best suppliers – and to acquire the most innovative technology.
- A global organization can offer significant career and personal development opportunities, place talented people in challenging positions and apply their skills to emerging opportunities worldwide.

**THE NEW EXTENDED ENTERPRISE PROGRAM.** Prior to the merger, both Daimler-Benz and Chrysler Corporation benefited from strong supplier relationships supported by distinctive communications programs. The former Daimler-Benz program, called TANDEM, provided a platform for enhanced communication and cooperation, while the Chrysler Extended Enterprise® program promoted shared benefits between the automaker and its suppliers. As part of the creation of the new DaimlerChrysler Global Procurement & Supply organization, the best elements of the Daimler-Benz and Chrysler Corporation purchasing programs were blended into a new Extended Enterprise system, which aims to foster seamless global cooperation between DaimlerChrysler and its suppliers in all product creation, volume production and customer satisfaction activities.

The expanded Extended Enterprise Program focuses on four key areas:

- Technical Management, which establishes common quality standards worldwide and virtual research and development systems that blend DaimlerChrysler research initiatives with those of suppliers;
- Supply Management, which encompasses new processes for improving material flows and work schedules, reduction of inventories, improving logistics and reducing order-to-delivery times throughout the system;
- Commercial Management, which blends the best of existing cost reduction and communications programs to increase revenues while reducing costs and improving profitability for DaimlerChrysler and each of its Extended Enterprise supplier partners, and
- Program Management, which establishes a new Balanced Scorecard supplier ratings system and rewards suppliers that actively participate in the Extended Enterprise Program and perform well.

We presented the basic principles of our new Extended Enterprise Program to supplier partners from 25 countries in September 1999 at the first-ever DaimlerChrysler Global Supplier Plenum.

**CREATING A NEW COST MANAGEMENT PROCESS.** Another major GP&S initiative in 1999 was called the Fusion Project, a major program designed to identify the total cost of ownership of each process element and to create a new cost management process worldwide based on the success of the former Chrysler SCORE cost reduction program and previous Daimler-Benz cost reduction campaigns. As a result of the Fusion Project, new cost management pilot projects will be introduced throughout the Extended Enterprise Program.

**SYNERGY TARGETS OVERACHIEVED.** By taking advantage of synergy effects, we were able to substantially reduce costs in Global Procurement & Supply in our first year of operations after the merger. The synergy targets announced in the merger report were significantly overachieved. This excellent result demonstrates the great earnings potential that a strong procurement organization brings to our company. Close and fair cooperation on a long-term basis with our excellent supplier partners will remain the key factor of success for our global procurement activities in the future.

# Human Resources
# 12,000 new jobs created



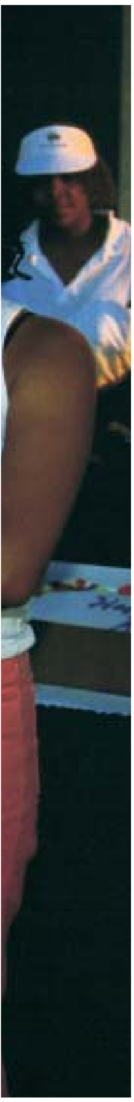
*A three-week trip abroad offering a view into another culture is the centerpiece of a new DaimlerChrysler exchange program for young people aged 15 to 17. The program is intended as a way to develop close relationships between the new company's employees in North America and Germany.*

**An important success factor for DaimlerChrysler is the creativity and dedication of our employees and their enthusiasm for their work. This is why we support and encourage the further development of their abilities, the international composition of our management, and the establishment of an organization that enables us to work successfully throughout all of our business units around the globe. All our employees participate in the creation of corporate value.**

| Employees | 99 | 98 |
|---|---|---|
| DaimlerChrysler | 466,938 | 441,502 |
| Mercedes-Benz Passenger Cars & smart | 99,459 | 95,158 |
| Chrysler Group[1] (Chrysler, Jeep®, Dodge, Plymouth) | 129,395 | 126,816 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 90,082 | 89,711 |
| Vehicle Sales Organization[2] | 34,133 | 31,280 |
| Services[3] | 26,240 | 23,734 |
| Aerospace | 46,107 | 45,858 |
| Others[4] | 41,522 | 28,945 |

1) Including Headquarters.
2) Mercedes-Benz Passenger Cars & smart.
3) Excluding Chrysler Financial Services 1998: 20,221.
4) Headquarters, Others.





**12,000 NEW JOBS CREATED.** At December 31, 1999, DaimlerChrysler employed 466,938 people worldwide (1998: 441,502). Of these, approximately 241,233 worked in Germany, while 123,928 were employed in the US. After adjustment for changes resulting from the consolidation process, DaimlerChrysler created almost 12,000 additional jobs in the year under review.

**INTEGRATION PROCESS DRIVEN FORWARD.** Important Human Resources integration projects were successfully completed by the end of the year. Our achievements include the creation of a unified, company-wide management structure, a unified system of executive compensation and a global framework for employee assignments abroad. We also succeeded in rapidly integrating all centralized units and functions of the former Daimler-Benz and Chrysler Corporation. A unified global travel strategy is also being implemented that will result in considerable savings.

**GLOBAL EXCHANGE PROGRAM.** With about 100 managers trading places on both sides of the Atlantic, our Global Exchange Program far surpassed our original expectations and played a key role in bringing the new company closer together. We also expanded our language and intercultural training programs–more than 8,000 of our employees attended such courses in 1999.

**RECRUITING CAMPAIGNS.** DaimlerChrysler took on more than 2,400 university graduates in 1999, primarily in the fields of engineering, computer science and business. As well as offering internships throughout the company, we are also intensifying cooperation with various universities and expanding internal further education programs leading to Master's degrees and Doctorates. Potential new employees are therefore afforded the opportunity to take a close look at DaimlerChrysler at the earliest possible stage. Our goal in Human Resources is for DaimlerChrysler to be among the most attractive employers worldwide, allowing us to obtain top talent for all our business units.

**DAIMLERCHRYSLER CORPORATE UNIVERSITY (DCU).** Linked to the strategic goals and tailored to the needs of our business, the DCU activities focus on developing global executive talent. In 1999 more than 2,000 international executives participated in management development seminars, workshops, discussion forums and Communities of Practice around the globe. In our recently established intranet platform, "DCU Online", various teams from all over the world have access to multimedia learning opportunities in order to exchange best practices and share knowledge across borders.

**PERFORMANCE-BASED COMPENSATION.** In 1999, we further extended our system of performance-based compensation. The distribution of Stock Appreciation Rights (SAR) aligns the interests of our executive management with those of the shareholders. In Germany, a new profit-sharing arrangement for blue and white collar employees is now linked to the value creation of the company. In the US, all employees continue to participate in performance-based compensation programs. With these developments, some portion of compensation is based on performance for essentially all levels of responsibility.

**GLOBAL POLICY FOR ETHICAL BEHAVIOR.** The Board of Management has defined a global policy for ethical behavior (Integrity Code) that is valid for every employee in all units of the Group. The implementation of this major document is an important step towards meeting the expectations shareholders and society have concerning corporate behavior.

**A WORD OF THANKS TO OUR STAFF.** We would like to thank all of the company's employees for their hard work and dedication. Without their commitment, we would never have been able to achieve the ambitious goals which we set for ourselves.We would also like to thank our employees' representatives for their constructive cooperation.

# ANALYSIS OF THE FINANCIAL SITUATION

- **Sustained improvement in profitability**
- **Operating profit increased 28% to €11.0 billion**
- **Net income reached €5.7 billion (plus 19%)**
- **Return on net assets significantly above cost of capital at 13.2% (1998: 12.7%)**
- **Industrial business presented separately for the first time**

**CONTINUED IMPROVEMENT IN OPERATING PROFIT.** DaimlerChrysler further improved its profitability in 1999 and achieved an operating profit of €11.0 billion. This represents an increase of 28% over the previous year's figure of €8.6 billion. After adjusting for certain one-time items affecting both financial years, which will be described hereunder, operating profit improved by 20% to €10.3 billion, meaning that operating profit increased at a much higher rate than revenues. It was particularly encouraging that all divisions again achieved higher operating profits – in some cases substantially higher. The improvement in operating profit was also the result of synergies achieved in the first year after the business combination, primarily due to cost savings in procurement and supply, and the sales organization. In the segment Other we fully consolidated Adtranz for the first time due to our acquisition of the remaining 50% stake from ABB. Operating improvements at Adtranz were partially offset by further burdens from the restructuring measures initiated during the year.

With a total of €5.1 billion (1998: €4.3 billion) in 1999 the biggest contribution to operating profit again came from the segment Chrysler Group. The significant increase over the previous year's result was mainly due to higher unit sales and improved product mix, with the market success of the Jeep Grand Cherokee, Dodge Durango and the full-size sedans being particularly important. Increases in vehicle pricing, partially offset by higher sales incentives for certain models, also contributed to the improvement in operating profit. The depreciation of the euro had an additional positive effect on the translation of the Chrysler Group's US dollar profits into euros. On the other hand, negative effects arose from the difficult economic situations in Asia and South America. Furthermore, the results include a €139 million charge for lump-sum retiree payments related to the collective bargaining agreement reached with the United Auto Workers labor union (UAW) in the US in September 1999.

The Mercedes-Benz Passenger Cars & smart division achieved an operating profit of €2.7 billion – a substantial increase of 36%. Important factors behind this rise were the increased volumes of the new S-Class, the A-Class and the M-Class. For life-cycle reasons, sales of the C-Class and E-Class were below the levels of the previous year. Shipments of the E-Class, however, gained momentum again after the introduction of the face-lifted model in the middle of the year. Higher output figures for the M-Class became possible after additional production facilities came on line in Graz, where the M-Class has been produced since spring 1999. As additional expenditures were necessary for the smart, particularly in the first half of the year, for the purpose of product modifications and in order to achieve better market positioning, its contribution to operating profit was again negative, despite a significant sales recovery since spring 1999.

The operating profit attained by the Commercial Vehicles division rose by 13% to €1,067 million in the 1999 financial year (1998: €946 million). Major contributions to this increase came from the dynamic development of the commercial vehicle business in the NAFTA region and the continuing market success of our vans in the European markets. In North America, the vehicles of the new truck brand, Sterling, and the school bus manufacturer, Thomas Built Buses, were available for the entire year for the first time. The difficult economic situations in South America and Turkey had a negative impact on our business, however.

The Services division, in which the services activities of debis and Chrysler Financial Services were integrated in 1999, recorded an operating profit of €2,039 million (1998: €985 million). This increase was mainly due to gains of €1,140 million from the sale of most of our shares in debitel AG. As this transaction took place less than two years after the merger, we reported the figure, in accordance with US GAAP, in the statement of income as extraordinary income. However, within the framework of segment reporting it is allocated to the operating profit of the Services division. Negative effects on earnings arose from a charge in the amount of €127 million relating to prior period securitization transactions. After adjusting for these effects and for one-time income from the share-swap (debitel for Freecom) carried out with Metro in 1998, the comparable figure for operating profit is still well above last year's result.

The Aerospace division profited again in 1999 from the strong demand for civil aircraft and from the extraordinary market success of the Airbus program, especially the A320-family. Growth in revenues caused by increased aircraft deliveries and a favorable US dollar exchange rate led to a rise in operating profit by 17% to €730 million. Due to existing currency-hedging, however, we were not able to take full advantage of exchange-rate developments. Restructuring burdens caused by capacity adjustments in the area of defense systems, made necessary by a further decline in the German defense budget, prevented an even higher rise in earnings.

The decline in operating profit for the segment Other is mainly due to the fact that the previous year's results included income from the disposal of the Group's semiconductor activities and from the sale of two buildings at Potsdamer Platz. The Automotive Electronics business continued to increase revenues and earnings while the MTU/Diesel Engines unit was also able to improve slightly on the high level of earnings achieved in the preceding year. At Adtranz we acquired the remaining 50% stake from ABB in the spring. The reorganization measures introduced in the plants in Germany in 1998 contributed to a reduction in the operating losses of the Rail Systems business. Because there is still a situation of overcapacity, additional measures were necessary, mainly in Europe outside Germany, which in 1999 again had a negative effect on operating profit. However, with a comprehensive reorganization of production, concentration on core competencies and the adjustment of capacities to market demand, we are confident that Adtranz will be able to achieve and sustain profitability.

| **Operating Profit by Segments** in millions | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| Mercedes-Benz Passenger Cars & smart | 2,722 | 2,703 | 1,993 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 5,086 | 5,051 | 4,255 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 1,075 | 1,067 | 946 |
| Services | 2,053 | 2,039 | 985 |
| Aerospace | 735 | 730 | 623 |
| Other | (402) | (399) | (130) |
| Eliminations | (180) | (179) | (79) |
| **DaimlerChrysler Group** | 11,089 | 11,012 | 8,593 |

**FINANCIAL INCOME MARKED BY EXCHANGE-RATE INFLUENCES.** In the year under review, financial income declined by €0.4 billion to €0.3 billion. Higher income from affiliated, associated and related companies and from stock-market gains, which we achieved due to the positive development of stock markets in 1999, were offset by significant charges related to exchange-rate movements. The substantial depreciation of the euro against other currencies that are important to us led to sizable burdens from the settlement and valuation of derivative financial instruments, which did not qualify for hedge accounting. However, the losses incurred of €1.1 billion are only temporary mark-to-market adjustments, as the corresponding underlying transactions will be recorded for purposes of operating profit with the prevailing exchange rates on the day of settlement. In the event that the current exchange rates also prevail at the time of settlement of the underlying transaction and the derivative financial instrument, a shift occurs between financial income and operating profit. Therefore the contracted hedge rates apply in determining net income. The planned adoption of the new accounting standard SFAS 133, which permits hedge accounting for anticipated foreign currency cash flows, may result in lower earnings volatility in periods of significant exchange rate fluctuations.

| Consolidated Statements of Income (in millions) | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| **Revenues** | 151,035 | 149,985 | 131,782 |
| Cost of sales | (119,046) | (118,219) | (103,666) |
| Selling, administrative and other expenses | (17,655) | (17,532) | (16,229) |
| Research and development | (5,777) | (5,737) | (4,971) |
| Other income | 832 | 827 | 1,099 |
| Merger costs | – | – | (685) |
| **Income before financial income, income taxes and extraordinary items** | 9,389 | 9,324 | 7,330 |
| Financial income, net | 335 | 333 | 763 |
| **Income before income taxes and extraordinary items** | 9,724 | 9,657 | 8,093 |
| Effects of changes in German tax law | (818) | (812) | – |
| Other income taxes | (3,747) | (3,721) | (3,014) |
| **Total income taxes** | (4,565) | (4,533) | (3,014) |
| Minority interests | (18) | (18) | (130) |
| **Income before extraordinary items** | 5,141 | 5,106 | 4,949 |
| Gains on disposals of a business, net of taxes | 664 | 659 | – |
| Losses on early extinguishment of debt, net of taxes | (20) | (19) | (129) |
| **Extraordinary items** | 644 | 640 | (129) |
| **Net income** | 5,785 | 5,746 | 4,820 |
| **Net income excluding non-recurring items**[1] | 6,270 | 6,226 | 5,350 |

[1] 1999: Disposal of 42.4% of the shares of debitel AG, restructuring measures at Adtranz, charge for lump-sum retiree payments related to the UAW collective bargaining agreement, charge related to prior period securitization transactions, early extinguishment of debt, effects of changes in German tax law

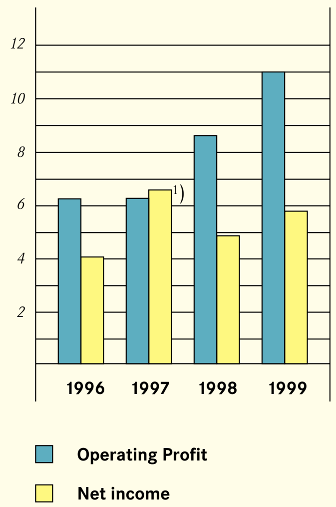
1998: Merger costs, settlement of obligations relating to the Airbus program, goodwill impairment at Adtranz, gains on disposals of various businesses, early extinguishment of debt

**DISTINCT IMPROVEMENT IN NET INCOME.** Net income of €5.7 billion is reported in the statement of income – 19% higher than the previous year's result. However, the figures for both years were considerably affected by extraordinary and other one-time items and are therefore not entirely comparable. In 1998, merger costs and the loss on early extinguishment of long-term, high-yielding debt had a negative impact on net income in the amount of €401 million and €129 million, (after taxes) respectively. On the other hand, in 1999 the reduction of our stake in debitel AG from 52.4% to 10.0% (due to the initial public offering and the sale of shares to Swisscom) yielded after-tax income of €659 million, which is shown as an extraordinary item. In contrast there arose negative one-time effects relating to prior period securitization transactions, the lump-sum retiree payments related to the collective bargaining agreement negotiated with the United Auto Workers' labor union in September and the restructuring measures initiated by Adtranz. In addition, the tax reform passed by the German parliament in 1999 resulted in a one-time tax burden of €812 million for the DaimlerChrysler Group. Since the Group's German companies together record a considerable net deferred tax asset position, the benefits resulting from the reduction of the corporation tax rate from 45 to 40% were offset by a one-time tax charge for the decreased valuation of these deferred tax assets. Moreover, there was

| Reconciliation to Operating Profit (in millions) | 99 US $ | 99 € | 98 € |
|---|---|---|---|
| **Income before financial income, income taxes and extraordinary items** | 9,389 | 9,324 | 7,330 |
| + Interest cost of pensions, net | 382 | 379 | 688 |
| + Operating income from affiliated, associated and related companies | 17 | 17 | (15) |
| + Gains on unallocated financial instruments | 2 | 2 | (156) |
| + Gain on disposal of debitel shares | 1,148 | 1,140 | – |
| + Miscellaneous (principally merger costs in 1998) | 151 | 150 | 746 |
| **Operating profit** | 11,089 | 11,012 | 8,593 |

a significant additional tax burden as a result of a broadening of the tax base including an additional tax imposed on dividends distributed by non-German Group companies. The broadening of the tax base, which was considered in the consolidated financial statements for 1999 through asset write-ups and additional tax provisions, will result in increased taxable income in future years and therefore partially offset the effect of the tax rate reduction. Adjusted for the foregoing one-time effects in both years, net income for 1999 of €6.23 billion was 16% higher than the comparable figure for the previous year of €5.35 billion. Based on Group net income, earnings per share increased from €5.03 to €5.73; adjusted for one-time effects, earnings per share increased from €5.58 to €6.21.

**Development of Earnings**
in billions of €




[1]) *Net income for 1997 includes €2.5 billion of special non-recurring tax benefits*

**DIVIDEND OF €2.35 PER SHARE.** Due to the continued positive earnings trend, we propose to the Annual Meeting taking place on April 19, 2000, that for 1999 a dividend of €2.35 per share be distributed - the same as for 1998. With a total of 1,003 million shares outstanding, the amount to be distributed is €2,358 million.

**SEPARATE REPORTING OF INDUSTRIAL AND FINANCIAL SERVICES BUSINESSES IN THE CONSOLIDATED FINANCIAL STATEMENTS.** Our leasing and sales financing business continued to grow in the 1999 financial year. In recent years, in order to make the impact of this rapidly expanding business on our financial statements more transparent, we presented in the balance sheets and statements of income and cash flows, not only the figures for the Group as a whole, but also corresponding figures for our leasing and sales financing activities. To provide an even better view of our financial position, in the 1999 financial statements we are also showing the industrial business separately for the first time. The eliminations from transactions within the Group, which mainly comprise the supply of vehicles, as well as inter-company loans and the related interest payments, are allocated to the industrial business. For reasons of comparability with other financial services companies, we report our financial services activities as if they were performed by an independent company (stand-alone view). For example, the vehicles included under equipment on operating leases are shown in the balance sheet of the financial services business at market prices and not at original Group production costs. The inter-company loans granted within the DaimlerChrysler Group are shown as financial liabilities.

In the industrial business we achieved a total operating profit (net of one-time items) of €9.4 billion, which was 23% higher than in the preceding year. At the same time, the operating profit of the financial services business rose from €890 million to €939 million.

In prior years we published the amounts of net assets and return on net assets (RONA) for the industrial business and the equity ratio for the DaimlerChrysler Group, assuming the leasing and sales financing activities of the financial services business were performed by an independent company. For the calculation of the equity ratio, we included the financial services business as if it were an equity method investment by the industrial business. In connection with our separate presentation of the industrial and financial services business, we modified the computations of net assets and RONA, as if both businesses were separate companies. However, we have allocated the effects of transactions between the industrial and financial services businesses to the industrial business. The prior year amounts for net assets, RONA and the equity ratio have been adjusted to conform with our computations in the current year.

**PERFORMANCE MEASURES SUPPORT VALUE-BASED MANAGEMENT.** As a result of the merger, the DaimlerChrysler Group has developed uniform performance measures which are intended to secure the value-based management and performance of the company as a whole as well as the individual business units. These performance measures allow and encourage decentralized responsibility, inter-divisional transparency and capital-market-oriented investment performance in all areas of the DaimlerChrysler Group.

For performance purposes we differentiate between the Group level and the operating levels of the divisions and business units. At the Group level we use net operating income, a capital-market-oriented after-tax performance measure. This is compared to the capital employed by the Group for the determination of the Group performance measure, return on net assets (RONA). Return on net assets demonstrates the extent to which the DaimlerChrysler Group earns or exceeds the rate of return required by its investors. The required rate of return, or the Group's average cost of capital, is defined as the minimum rate of return which investors expect for invested equity and borrowings. These capital costs are mainly determined by long-term bond rates combined with a risk premium for investments in stocks. For the Group we currently calculate a weighted average cost of capital of 9.2% after taxes.

For the industrial business units we use operating profit as an earnings measure, a commonly accepted performance measure before interest and taxes, as this more accurately reflects the areas of responsibility under the control of business unit management. The industrial business units also use net assets which is defined as assets minus non-interest-bearing liabilities as a capital basis. The minimum required rate of return on net assets is 15.5%. For our financial services activities we apply, as is usual in this sector, return on equity as a performance measure. The target rate of return on equity is 20% (before taxes).

Furthermore, value added, defined as the absolute performance measure after deducting the average cost of capital, serves as an additional important performance measure for controlling profitable growth. Particularly in those areas in which the rates of return achieved are significantly higher than the cost of capital, continued growth in value can primarily be achieved by selectively utilizing growth opportunities while maintaining profitability.

Within the framework of our strategic value management we also define value added goals for the individual business units of the Group. For this purpose we carry out benchmark analyses of the returns and growth rates of the competitors within each sector.

In 1999 net operating income, which is derived from net income, rose by 10.6% to €7.0 billion. An increase in annual average net assets from €50.1 billion to €53.2 billion – a lower growth rate than that of revenues –led to an improvement in return on net assets for the DaimlerChrysler Group from 12.7% to 13.2%. This meant that our return on capital again clearly exceeded the weighted average cost of capital of 9.2%. A particularly positive point was the fact that all of the automotive divisions again improved their return on net assets compared with the previous year and exceeded the minimum required rate of return of 15.5% by a large margin. The return on net assets for Rail Systems was again negative, as the business situation was still unsatisfactory and because of the restructuring measures that were initiated. In the financial services business return on equity was 18.4%, somewhat lower than in the preceding year and below the ambitious minimum required rate of return we had set for the business.

The value added of the DaimlerChrysler Group increased during 1999 by €387 million to €2.1 billion. The main contributions came from the divisions Mercedes-Benz Passenger Cars & smart and Chrysler Group.





**Net Assets and Return on Net Assets**

| | 99 | 98 | 99 | 98 |
|---|---|---|---|---|
| | (annual average, in billions of €) Net Assets | | % Return on Net Assets | % |
| DaimlerChrysler Group (after taxes) | 53.2 | 50.1 | 13.2 | 12.7 |
| Industrial businesses (before interest and taxes) | 39.0 | 35.1 | 24.0 | 21.9 |
| Mercedes-Benz Passenger Cars & smart | 9.6 | 8.0 | 28.2 | 25.1 |
| Chrysler Group (Chrysler, Jeep®, Dodge, Plymouth) | 19.5 | 17.6 | 25.9 | 24.2 |
| Commercial Vehicles (Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses) | 6.0 | 5.5 | 17.8 | 17.1 |
| Services[1] | 0.8 | 0.5 | 15.0 | 16.0 |
| Aerospace[2] | 2.2 | 1.4 | 33.8 | 43.0 |
| Rail Systems, Automotive Electronics, MTU/Diesel Engines | 1.0 | 1.2 | (29.1) | (18.4) |
| | Stockholders' Equity | | Return on Equity[3] | |
| Financial Services | 5.1 | 4.3 | 18.4 | 20.7 |

[1] Excluding Financial Services
[2] The organization of business procedures in the aerospace industry, under which a part of the capital employed is generally financed by advance payments, results in a relatively low capital base and a correspondingly higher RONA value and is therefore not directly comparable with RONA values from other industrial sectors.
[3] Before taxes

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

**Net Assets of the DaimlerChrysler Group**
in millions

| | 99[1] € | 98[1] € |
|---|---|---|
| Stockholders' equity | 36,060 | 30,367 |
| Minority interests | 650 | 691 |
| Financial liabilities of the industrial segment | 4,400 | 3,631 |
| Pension provisions of the industrial segment | 14,014 | 16,535 |
| **Net Assets** | 55,124 | 51,224 |

[1] Represents the value at year-end; the average for the year was €53.2 billion (1998: €50.1 billion)

| Reconciliation to Net Operating Income in millions | 99 € | 98 € |
|---|---|---|
| **Net income** | 5,746 | 4,820 |
| Non-recurring items | 480 | 530 |
| **Net income adjusted for non-recurring items** | 6,226 | 5,350 |
| Minority interests | 18 | 130 |
| Interest expense related to industrial activities, after taxes | 127 | 131 |
| Interest cost of pensions related to industrial acivities, after taxes | 661 | 748 |
| **Net Operating Income** | 7,032 | 6,359 |

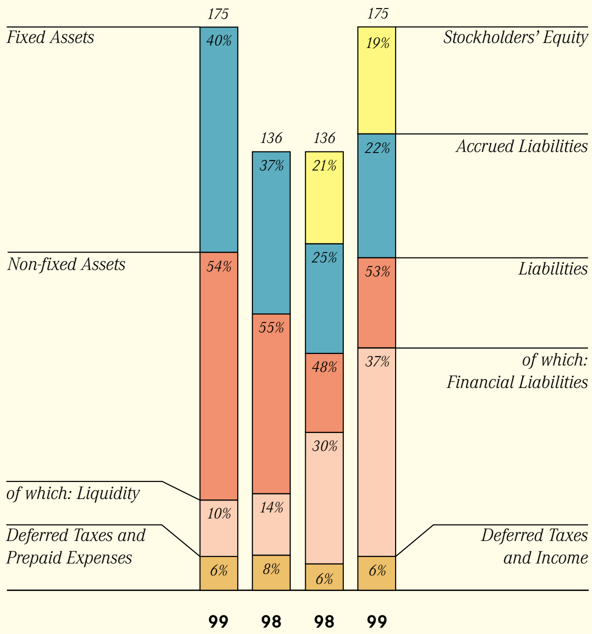
**GERMAN PENSION TRUST FOUNDED.** In the future we intend to administer the liquidity relating to the pension obligations of DaimlerChrysler AG in Germany in a separate pension fund according to common international standards. For this purpose we founded the DaimlerChrysler Pension Trust in 1999, and initially transferred into it more than €4 billion of securities. In January 2000, we transferred further securities in the amount of €1.3 billion to the DaimlerChrysler Pension Trust. By means of a long-term investment policy with a larger proportion of stocks, we aim to achieve a higher rate of return, which we expect will reduce our future pension expenses. Despite the establishment of the DaimlerChrysler Pension Trust, DaimlerChrysler AG continues to retain the ultimate future obligation for the pension benefits. With the newly founded Pension Trust we are adjusting the financing of the pension obligations of DaimlerChrysler AG to conform with the practices of other Group companies in the U.S. and other countries, which use pension funds according to country-specific circumstances.

Because the resources of the pension fund are to be used exclusively for the purpose of providing retirement pension payments and are permanently separated from the other assets of the Group in accordance with US GAAP, the transferred investments are reported net against the corresponding pension provisions. This gives us better international comparability, especially with US companies, which finance their pension obligations through separate funds.

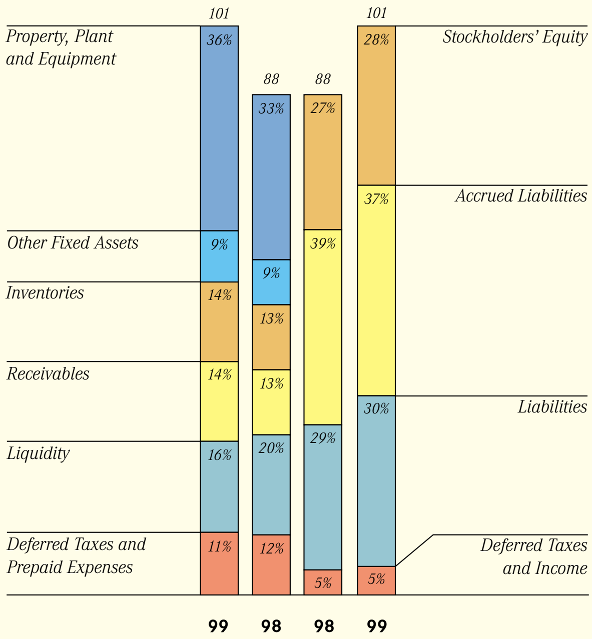
**CONTINUED GROWTH OF THE BALANCE SHEET TOTAL.** Significantly higher business volume and the continuing expansion of the leasing and sales financing business, as well as the considerably higher valuation of the US dollar on the balance sheet date, have led to an increase in the balance sheet total over last year's level by €38.5 billion, or 28%, to €174.7 billion, despite the foundation of the DaimlerChrysler Pension Trust. The assets and liabilities of the Group's US companies were translated on December 31, 1999 at a rate of exchange of €1 = $1.005 (1998: €1 = $1.169), which resulted in correspondingly higher balance sheet positions in euros. Of the aggregate rise in total assets, €13.0 billion was explained by currency effects alone.

On the assets side, primarily equipment on operating leases and receivables from financial services have increased disproportionately in relation to the increases in other asset categories. After growth of 86% and 46%, respectively, these items now account for a total of €66.0 billion, which is 38% of our total assets. This is mirrored by financial liabilities amounting to €64.5 billion (1998: €40.4 billion). The stronger US dollar contributed €5.2 billion to the increase in the total of equipment on operating leases and receivables from financial services. Property, plant and equipment rose by 23% to €36.4 billion. In addition to substantially higher capital expenditures, the US dollar denominated fixed assets of DaimlerChrysler Corporation, translated into euros, contributed to the increase. Inventories – net of advance payments received – totaled €15.0 billion (1998: €11.8 billion) in the consolidated balance sheet. Their share of the balance sheet total declined from 8.7% to 8.6%. Due to expanded business volume, trade receivables and other receivables increased by €3.0 billion to €21.4 billion overall. The level of liquid funds fell to €18.2 billion (1998: €19.1 billion) due to the transfer of more than €4 billion of securities into the DaimlerChrysler Pension Trust.

**Balance Sheet Structure**
**in billions of €**




**Balance Sheet Structure of the Industrial Business**
**in billions of €**

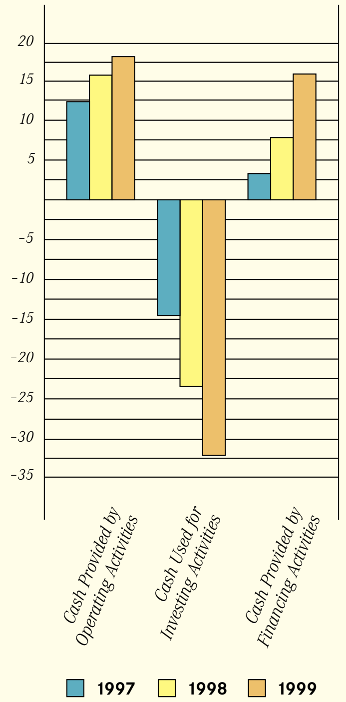



A strong increase also occurred in stockholders' equity, which reached €36.1 billion at December 31, 1999 (1998: €30.4 billion). This was the result of higher net income and currency translation. In view of the increased balance sheet total, the equity ratio net of dividend distribution fell from 20.6% to 19.3%. For the industrial business, however, the equity ratio increased from 26.6% to 27.8%. The Group's balance sheet figure for accrued liabilities grew overall by 8.9% to €37.7 billion. The reduction in pension provisions resulted from the formation of the DaimlerChrysler Pension Trust was offset by higher other accrued liabilities, primarily due to the significant expansion of business volume and the effects of currency translation.

For the leasing and financing business, total assets increased by 55% compared with December 31, 1998 to €73.9 billion. Receivables from financial services of €38.7 billion (1998: €26.5 billion) account for the biggest part of this increase. Total liabilities, primarily comprised of financial liabilities, increased by €23.3 billion to €60.1 billion during 1999, as a result of continuing growth in financial services and the effects described above from the appreciation of the US dollar. The equity employed in the financial services business amounted to €5.7 billion at the end of the year, equivalent to about 7.8% of total assets.

**HIGHER CASH FLOW FROM OPERATING ACTIVITIES.** Cash provided by operating activities (adjusted for changes in the consolidated group and exchange-rate effects) increased by 8.0% in the year under review and reached €18.0 billion (1998: €16.7 billion). A significantly better financial result (before non-cash expenses and income) was partially offset by a higher working capital caused by the expanded business volume. Cash used for investing activities of €32.1 billion in 1999 (1998: €23.4 billion) was again characterized by the continued expansion of our leasing and sales financing business. For the financial services business, cash used for investing activities amounted to €21.8 billion – nearly €10 billion more than in the preceding year. This was primarily due to a considerably higher net increase in equipment on operating leases (up €7.9 billion to €12.9 billion) and a net cash outflow of €1.8 billion related to receivables from financial services. To cover the capital needs of our growing financial services business, we entered into a considerable volume of both short-term and long-term financial liabilities. After taking into consideration the higher dividend payments made by the Group to its shareholders (adjusted for the special dividend distribution made in 1998) cash provided by financing activities rose by €9.0 billion to €15.8 billion. As a result of the aforementioned developments cash and cash equivalents with an initial

Cash Flow
in billions of €




maturity of less than three months increased by €2.5 billion to €8.8 billion (after adjusting for exchange-rate effects). Despite the transfer of securities to the DaimlerChrysler Pension Trust, liquidity which also includes investments and securities with longer maturities, only declined from €19.1 billion to €18.2 billion.

**ONGOING INTERNATIONALIZATION OF OUR REFINANCING ACTIVITIES.** The funding activities of the DaimlerChrysler Group increased substantially in 1999 due to the continuing growth of the financial services business. To achieve this funding, the treasury centers in Auburn Hills and Stuttgart used our world-wide group of regional holding and finance companies as issuing entities in the various capital markets.

Among other bond issues, in 1999 the Group issued its first global bond, a US $4.5 billion issue as well as a €1 billion benchmark bond issue. To take advantage of prevailing market conditions, funds were raised in other currencies, such as the Japanese yen, Canadian dollar, Swiss franc and Czech koruna. Another important source of funding, mainly in the United States was the securitization of sales financing receivables.

During 1999, we reorganized our commercial bank facilities, establishing global credit facilities of US $17 billion, with commitments from 49 banks.

As a consequence of the solid finance structure of DaimlerChrysler, the rating agencies, Moody's Investor Services and Standard & Poor's, confirmed their existing A1 and A+ ratings, respectively, in 1999.

**TRANSPARENCY OF RISK IN ASSET AND LIABILITY MANAGEMENT.** The liquid assets available in the DaimlerChrysler Group are invested in the money markets and in the capital markets, with a view towards both the cash flow needs of the Group and the optimization of returns. Our capital market investments are principally in stocks and interest-bearing bonds, using the instruments of modern portfolio management. Derivative financial instruments are used only to hedge market risks in asset, liability and foreign currency management. We use a central front-end system for the constant determination and monitoring of portfolios, market values and yields.

For the assessment and control of the risk connected with financial instruments held by the Group, we use a risk limit set by the Board of Management, derived from the value-at-risk method, and in accordance with the regulations of the Bank for International Settlements. For this method, we rely on the variance-covariance approach based on the Risk Metrics® model and the appropriate data supplied by J. P. Morgan. In addition to the historical data for volatilities and correlations, information from other sources on interest and exchange rates, which is necessary for the evaluation of all instruments, is maintained in the financial risk controlling system.

The following table for value-at-risk shows the possible market value fluctuations determined for the stock portfolio and the interest-rate-sensitive financial instruments of the DaimlerChrysler Group, including the receivables and liabilities relating to the financial services business, on the basis of a confidence level of 99% and a holding period of five days. Risk-reducing correlation effects between individual market parameters are the main reason why the overall risk is lower than the sum of the individual risks.

| Value at Risk<br>in millions of € | 12/31/1999 | Average for 1999 | 12/31/1998 |
|---|---|---|---|
| Interest-rate-sensitive financial instruments | 81 | 71 | 42 |
| Stocks and stock derivatives | 105 | 148 | 171 |
| Total | 127 | 168 | 166 |

In accordance with applicable regulations on risk management for banks, we have separated the trading areas from the administrative functions of processing, financial accounting and financial controlling in terms of organization, location and systems.

**EXCHANGE-RATE RISKS REDUCED BY HEDGING.** The international orientation of our business activities results in cash receipts and payments denominated in various currencies. Particularly due to the fact that exports from Germany exceed the flows of imports from other currency regions, DaimlerChrysler is subject to exchange-rate risks. Net exposure, which is the difference between exports and imports in each currency, is regularly monitored within the framework of the centralized foreign currency management. Currency exposures are hedged with the use of suitable financial instruments according to exchange-rate expectations which are constantly reviewed. In this context, 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 generally not hedged against currency risks.

Because of the introduction of the euro on January 1, 1999, risks connected with the currencies of the euro zone have now been eliminated. Exchange-rate exposure for the DaimlerChrysler Group now primarily exists for the currencies shown in the following table. This table shows the negative effects on pre-tax cash flows in 2000 and 2001 resulting from a hypothetical 10% appreciation of the euro, after consideration of the existing currency hedging which occurred through December 31, 1999.



**Exchange-rate sensitivities in 2000**
in billions of €

| | USD | CAD | GBP | JPY | Others | Total |
|---|---|---|---|---|---|---|
| Gross foreign currency exposure | 14.2 | 6.9 | 3.2 | 2.1 | 2.1 | 28.5 |
| Netting | (6.8) | (7.4) | (0.3) | (0.6) | (0.3) | (15.4) |
| Net currency exposure | 7.4 | (0.5) | 2.9 | 1.5 | 1.8 | 13.1 |
| Negative effect of a 10% appreciation of the euro[1)] | 0.12 | – | 0.05 | 0.02 | 0.07 | 0.26 |

**Exchange-rate sensitivities in 2001**
in billions of €

| | USD | CAD | GBP | JPY | Others | Total |
|---|---|---|---|---|---|---|
| Gross foreign currency exposure | 14.8 | 7.1 | 3.7 | 2.0 | 3.1 | 30.7 |
| Netting | (7.7) | (7.1) | (0.3) | (0.2) | (1.2) | (16.5) |
| Net currency exposure | 7.1 | – | 3.4 | 1.8 | 1.9 | 14.2 |
| Negative effect of a 10% appreciation of the euro[1)] | 0.30 | – | 0.19 | 0.04 | 0.14 | 0.67 |

[1)] On cash flows before taxes, after consideration of existing hedging contracts

**EARLY RECOGNITION AND CONSISTENT MANAGEMENT OF FUTURE RISKS.** In view of the global operations of the DaimlerChrysler Group's business units and the increasingly intense competition in all markets, the business units are subject to many risks which are inseparably connected with entrepreneurial activity. For the early recognition and assessment of existing risks and the formulation of an appropriate response, we have developed and used effective monitoring and control systems. Among other things, these systems include the application of Group-wide standard guidelines, the use of reliable software, the selection and training of qualified personnel and constant checks by our internal auditors. With a view to the requirements of the German Business Monitoring and Transparency Act (KonTraG), we have integrated the Group's early warning systems into a risk management system. The operating units continuously monitor existing risks and regularly report on them to the Group's Board of Management in the context of planning and controlling processes, taking into consideration agreed-upon thresholds. This ensures that the Group's management recognizes significant risks at an early stage and can initiate appropriate measures to deal with them.

Risks resulting from interest-rate and exchange-rate developments, including our hedging activities, have been described in this section. Additional uncertainties arise from further economic developments in those countries which are important for our businesses, and can be increased by the strong cyclical nature of demand in some of the markets we serve.

The automotive sector, in particular, is marked by dynamic competition which is likely to become even more intense in the future as a result of worldwide excess capacity. The introduction of the euro as a single currency in eleven member states of the European Union and the growing importance of new distribution channels such as the Internet will reinforce this trend. It will therefore continue to be important for us to maintain our position in our traditional markets while exploiting additional market potential with innovative new products. In this context the market success of the smart and the addition of new models and versions to the smart product range is of great significance.

Like all internationally active automobile manufacturers, the DaimlerChrysler Group is affected by intensifying legal regulations in its various markets concerning the exhaust emissions and fuel consumption of its range of cars as well as their safety standards. Furthermore, there are several actions for damages pending against companies of the DaimlerChrysler Group – as well as an investigation by the European Commission.

Our financial services business is primarily involved in leasing and financing Group products, mainly vehicles, to our customers and for our dealerships. Refinancing is carried out to a considerable extent through external capital markets. This gives rise, not only to credit risks, but also to residual-value risks for the vehicles, which are given back to us for remarketing at the end of their leasing periods.

Adtranz operates in an extremely competitive environment, characterized by industry overcapacity and pricing pressure resulting from the rationalization needs faced by railroad operators. We are confident, however, that the measures we are taking to restructure Adtranz will improve in its competitive situation.

Using a newly developed country-rating system, CRISK-Explorer, we are striving to monitor not only the risk potential but also the opportunities connected with business activities in emerging markets.

**YEAR 2000 ADAPTATION SUCCESSFULLY COMPLETED.** We successfully completed the process of adapting our information and communications systems for year 2000 compliance. All of our computers, technical equipment and machinery in our plants, offices and spare parts centers continued to function properly after the end of the year, so there were no significant disturbances or failures. The project team that was responsible for Group-wide conversion and adaptation has now concluded its work and has handed over responsibility for further system developments to the appropriate functional departments. When carrying out the necessary system adaptations for a smooth transition to the year 2000, it proved to be a great advantage that we had already introduced the euro as our corporate currency on January 1, 1999.

For the DaimlerChrysler Group the costs of ensuring year 2000 compliance amounted to approximately €240 million. Of this total, about €70 million was incurred in the 1999 financial year.

**EVENTS AFTER THE END OF THE 1999 FINANCIAL YEAR.**
Since the end of the 1999 financial year there have been no further developments, beyond the ones described above, which are of major significance to DaimlerChrysler and which would lead to a changed assessment of the Group's position. The course of business in the first months of 2000 confirms the statements made in the section 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, 1999 and 1998, consolidated statements of income, cash flows and changes in stockholders' equity for each of the financial years, 1999, 1998 and 1997) were prepared in accordance with United States generally accepted accounting principles (US GAAP).

In order to comply with Section 292 a of the HGB (German Commercial Code), the consolidated financial statements were supplemented with a consolidated business review report and additional 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 Directives of the European Community. For the interpretation of these directives we relied on the statement by the Committee for Accounting Directives, which has also been approved by the European Commission and the German Federal Department of Justice.

With the introduction of the euro effective January 1, 1999, we changed over our internal and external reporting to euros and therefore also prepared the consolidated financial statements and the consolidated business review report in euros, including the figures for prior years.

The consolidated financial statements and the consolidated business review report as of December 31, 1999 prepared in accordance with Section 292 a of the HGB (German Commercial Code) and filed with the Commercial Register in Stuttgart under the number, HRB 19 360, will be provided to shareholders on request.

## STATEMENT BY THE BOARD OF MANAGEMENT

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

We have installed effective controlling and monitoring systems to guarantee compliance with accounting principles and the adequacy of reporting. These systems include the use of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel, and regular reviews by our internal auditing department.

With a view to the requirements of the German Business Monitoring and Transparency Act (KonTraG) we have integrated the Group's early warning systems into a risk management system. This enables the Board of Management to identify significant risks at an early stage and to initiate appropriate measures.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the consolidated financial statements, which were prepared in accordance with the United States generally accepted accounting principles, and issued the following auditors' report.

Together with the independent auditors, the Supervisory Board's Financial Audit Committee examined and discussed the consolidated financial statements including the business review report and the auditors' report in depth. Subsequently, the entire Supervisory Board 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, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. 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 financial statements of DaimlerChrysler Corporation or certain of its consolidated subsidiaries ("DaimlerChrysler Corporation"), which statements reflect total assets constituting 29 percent and 43 percent at December 31, 1999 and 1998, and total revenues constituting 43 percent, 45 percent and 46 percent for the years ended December 31, 1999, 1998 and 1997, 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.

In 1998 and 1997, DaimlerChrysler accounted for a material joint venture 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 required that such joint venture be accounted for using the equity method of accounting. The United States Securities and Exchange Commission 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 in 1998 and 1997, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DaimlerChrysler as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with United States generally accepted accounting principles.

Stuttgart
February 14, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wiedmann　　　　Schmidt

Prof. Dr. Wiedmann
Wirtschaftsprüfer

Schmid
Wirtschaftsprüfer

# CONSOLIDATED STATEMENTS OF INCOME

| (in millions, except per share amounts) | Note | 99 (Note 1) $ | 99 € | 98 € | 97 € |
|---|---|---|---|---|---|
| | | *Consolidated Year ended December 31,* | | | |
| Revenues | 30 | 151,035 | 149,985 | 131,782 | 117,572 |
| Cost of sales | 5 | (119,046) | (118,219) | (103,666) | (92,879) |
| **Gross margin** | | 31,989 | 31,766 | 28,116 | 24,693 |
| Selling, administrative and other expenses | 5 | (17,655) | (17,532) | (16,229) | (15,621) |
| Research and development | | (5,777) | (5,737) | (4,971) | (4,408) |
| Other income | 6 | 832 | 827 | 1,099 | 848 |
| Merger costs | 1 | – | – | (685) | – |
| **Income before financial income, income taxes and extraordinary items** | | 9,389 | 9,324 | 7,330 | 5,512 |
| Financial income, net | 7 | 335 | 333 | 763 | 633 |
| **Income before income taxes and extraordinary items** | | 9,724 | 9,657 | 8,093 | 6,145 |
| Effects of changes in 1999 German tax law | | (818) | (812) | – | – |
| Tax benefit relating to a special distribution | | – | – | – | 1,487[1)] |
| Income taxes | | (3,747) | (3,721) | (3,014) | (970)[2)] |
| Total income taxes | 8 | (4,565) | (4,533) | (3,014) | 517 |
| Minority interests | | (18) | (18) | (130) | (115) |
| **Income before extraordinary items** | | 5,141 | 5,106 | 4,949 | 6,547 |
| Extraordinary items: | 9 | | | | |
| Gains on disposals of a business, net of taxes | | 664 | 659 | – | – |
| Losses on early extinguishment of debt, net of taxes | | (20) | (19) | (129) | – |
| **Net income** | | 5,785 | 5,746 | 4,820 | 6,547[3)] |
| **Earnings per share** | 31 | | | | |
| Basic earnings per share | | | | | |
| Income before extraordinary items | | 5.13 | 5.09 | 5.16 | 6.90[3)] |
| Extraordinary items | | 0.64 | 0.64 | (0.13) | – |
| Net income | | 5.77 | 5.73 | 5.03 | 6.90[3)] |
| Diluted earnings per share | | | | | |
| Income before extraordinary items | | 5.10 | 5.06 | 5.04 | 6.78[3)] |
| Extraordinary items | | 0.63 | 0.63 | (0.13) | – |
| Net income | | 5.73 | 5.69 | 4.91 | 6.78[3)] |

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 the deferred tax asset 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 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

| (in millions, except per share amounts) | Industrial Business Year ended December 31, 99 € | 98 € | 97 € | Financial Services Year ended December 31, 99 € | 98 € | 97 € |
|---|---|---|---|---|---|---|
| Revenues | 139,929 | 124,010 | 111,166 | 10,056 | 7,772 | 6,406 |
| Cost of sales | (109,805) | (97,492) | (87,812) | (8,414) | (6,174) | (5,067) |
| **Gross margin** | 30,124 | 26,518 | 23,354 | 1,642 | 1,598 | 1,339 |
| Selling, administrative and other expenses | (16,532) | (15,351) | (14,913) | (1,000) | (878) | (708) |
| Research and development | (5,737) | (4,971) | (4,408) | – | – | – |
| Other income | 691 | 993 | 769 | 136 | 106 | 79 |
| Merger costs | – | (685) | – | – | – | – |
| **Income before financial income, income taxes and extraordinary items** | 8,546 | 6,504 | 4,802 | 778 | 826 | 710 |
| Financial income, net | 327 | 740 | 618 | 6 | 23 | 15 |
| **Income before income taxes and extraordinary items** | 8,873 | 7,244 | 5,420 | 784 | 849 | 725 |
| Effects of changes in 1999 German tax law | | | | | | |
| Tax benefit relating to a special distribution | | | | | | |
| Income taxes | | | | | | |
| Total income taxes | (4,340) | (2,732) | 784 | (193) | (282) | (267) |
| Minority interests | (16) | (128) | (114) | (2) | (2) | (1) |
| **Income before extraordinary items** | 4,517 | 4,384 | 6,090 | 589 | 565 | 457 |
| Extraordinary items: | | | | | | |
| Gains on disposals of a business, net of taxes | 659 | – | – | – | – | – |
| Losses on early extinguishment of debt, net of taxes | (19) | (129) | – | – | – | – |
| **Net income** | 5,157 | 4,255 | 6,090 | 589 | 565 | 457 |
| **Earnings per share** | | | | | | |
| Basic earnings per share | | | | | | |
| Income before extraordinary items | – | – | – | – | – | – |
| Extraordinary items | – | – | – | – | – | – |
| Net income | – | – | – | – | – | – |
| Diluted earnings per share | | | | | | |
| Income before extraordinary items | – | – | – | – | – | – |
| Extraordinary items | – | – | – | – | – | – |
| Net income | – | – | – | – | – | – |

# CONSOLIDATED BALANCE SHEETS

| (in millions) | Note | Consolidated At December 31, 99 (Note 1) $ | 99 € | 98 € | Industrial Business At December 31, 99 € | 98 € | Financial Services At December 31, 99 € | 98 € |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 10 | 2,843 | 2,823 | 2,561 | 2,632 | 2,457 | 191 | 104 |
| Property, plant and equipment, net | 10 | 36,689 | 36,434 | 29,532 | 36,338 | 29,479 | 96 | 53 |
| Investments and long-term financial assets | 16 | 3,969 | 3,942 | 2,851 | 3,079 | 2,149 | 863 | 702 |
| Equipment on operating leases, net | 11 | 27,440 | 27,249 | 14,662 | 3,433 | 2,886 | 23,816 | 11,776 |
| **Fixed assets** | | 70,941 | 70,448 | 49,606 | 45,482 | 36,971 | 24,966 | 12,635 |
| Inventories | 12 | 15,090 | 14,985 | 11,796 | 14,036 | 11,142 | 949 | 654 |
| Trade receivables | 13 | 8,902 | 8,840 | 7,605 | 8,522 | 6,958 | 318 | 647 |
| Receivables from financial services | 14 | 39,006 | 38,735 | 26,468 | 38 | 8 | 38,697 | 26,460 |
| Other receivables | 15 | 12,658 | 12,571 | 10,775 | 5,408 | 4,847 | 7,163 | 5,928 |
| Securities | 16 | 9,032 | 8,969 | 12,160 | 8,250 | 11,563 | 719 | 597 |
| Cash and cash equivalents | 17 | 9,163 | 9,099 | 6,589 | 8,197 | 5,968 | 902 | 621 |
| **Non-fixed assets** | | 93,851 | 93,199 | 75,393 | 44,451 | 40,486 | 48,748 | 34,907 |
| **Deferred taxes** | 8 | 3,832 | 3,806 | 5,016 | 3,710 | 4,999 | 96 | 17 |
| **Prepaid expenses** | 19 | 7,265 | 7,214 | 6,134 | 7,076 | 6,008 | 138 | 126 |
| **Total assets (thereof short-term 1999: €70,111; 1998: €57,953)** | | 175,889 | 174,667 | 136,149 | 100,719 | 88,464 | 73,948 | 47,685 |
| **Liabilities and stockholders' equity** | | | | | | | | |
| Capital stock | | 2,583 | 2,565 | 2,561 | | | | |
| Additional paid-in capital | | 7,380 | 7,329 | 7,274 | | | | |
| Retained earnings | | 24,093 | 23,925 | 20,533 | | | | |
| Accumulated other comprehensive income | | 2,257 | 2,241 | (1) | | | | |
| Treasury stock | | – | – | – | | | | |
| **Stockholders' equity** | 20 | 36,313 | 36,060 | 30,367 | 30,318 | 25,905 | 5,742 | 4,462 |
| **Minority interests** | | 654 | 650 | 691 | 637 | 674 | 13 | 17 |
| **Accrued liabilities** | 22 | 37,958 | 37,695 | 34,629 | 37,155 | 34,224 | 540 | 405 |
| Financial liabilities | 23 | 64,940 | 64,488 | 40,430 | 4,400 | 3,631 | 60,088 | 36,799 |
| Trade liabilities | 24 | 15,896 | 15,786 | 12,848 | 15,484 | 12,608 | 302 | 240 |
| Other liabilities | 25 | 10,358 | 10,286 | 9,249 | 7,655 | 6,919 | 2,631 | 2,330 |
| **Liabilities** | | 91,194 | 90,560 | 62,527 | 27,539 | 23,158 | 63,021 | 39,369 |
| **Deferred taxes** | 8 | 5,228 | 5,192 | 4,165 | 1,227 | 1,504 | 3,965 | 2,661 |
| **Deferred income** | 26 | 4,542 | 4,510 | 3,770 | 3,843 | 2,999 | 667 | 771 |
| **Total liabilities (thereof short-term 1999: €83,171; 1998: €58,181)** | | 139,576 | 138,607 | 105,782 | 70,401 | 62,559 | 68,206 | 43,223 |
| **Total liabilities and stockholders' equity** | | 175,889 | 174,667 | 136,149 | 100,719 | 88,464 | 73,948 | 47,685 |

The accompanying notes are an integral part of these Consolidated Financial Statements.
All 1998 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| (in millions of €) | Capital stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income: Cumulative translation adjustment | Accumulated other comprehensive income: Available-for-sale securities | Accumulated other comprehensive income: Minimum pension liability | Treasury stock | Preferred stock | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 1997** | 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 |
| Net income | – | – | 5,746 | – | – | – | – | – | 5,746 |
| Other comprehensive income (loss) | – | – | – | 2,431 | (181) | (8) | – | – | 2,242 |
| **Total comprehensive income** | | | | | | | | | 7,988 |
| Issuance of capital stock | 4 | 63 | – | – | – | – | – | – | 67 |
| Purchase of capital stock | – | – | – | – | – | – | (86) | – | (86) |
| Re-issuance of treasury stock | – | – | – | – | – | – | 86 | – | 86 |
| Dividends | – | – | (2,356) | – | – | – | – | – | (2,356) |
| Other | – | (8) | 2 | – | – | – | – | – | (6) |
| **Balance at December 31, 1999** | 2,565 | 7,329 | 23,925 | 1,922 | 347 | (28) | – | – | 36,060 |

The accompanying notes are an integral part of these Consolidated Financial Statements.
All 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in millions) | 99 (Note 1) $ | 99 € | 98 € | 97 € |
|---|---|---|---|---|
| | *Consolidated Year ended December 31,* | | | |
| Net income | 5,785 | 5,746 | 4,820 | 6,547 |
| Income (loss) applicable to minority interests | 18 | 18 | 130 | 115 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Tax benefit relating to a special distribution | – | – | – | (1,487) |
| Gains on disposals of businesses (see also Note 9) | (1,189) | (1,181) | (296) | (569) |
| Depreciation and amortization of equipment on operating leases | 3,338 | 3,315 | 1,972 | 1,456 |
| Depreciation and amortization of fixed assets | 6,077 | 6,035 | 5,359 | 4,847 |
| Change in deferred taxes | 2,419 | 2,402 | 1,959 | (705) |
| Losses on early extinguishment of debt (extraordinary item) | 19 | 19 | 129 | – |
| Change in financial instruments | 249 | 247 | (191) | 146 |
| (Gain) loss on disposal of fixed assets/securities | (1,223) | (1,215) | (368) | (204) |
| Change in trading securities | 499 | 495 | 251 | (387) |
| Change in accrued liabilities | 4,029 | 4,001 | 1,419 | 840 |
| Change in other operating assets and liabilities: | | | | |
| – inventories, net | (2,453) | (2,436) | (976) | (744) |
| – trade receivables | (738) | (733) | (688) | (555) |
| – trade liabilities | 1,340 | 1,331 | 1,827 | 1,709 |
| – other assets and liabilities | (21) | (21) | 1,334 | 1,328 |
| **Cash provided by operating activities** | 18,149 | 18,023 | 16,681 | 12,337 |
| Purchases of fixed assets: | | | | |
| – Increase in equipment on operating leases | (19,471) | (19,336) | (10,245) | (7,225) |
| – Purchases of property, plant and equipment | (9,536) | (9,470) | (8,155) | (8,051) |
| – Purchases of other fixed assets | (650) | (645) | (305) | (264) |
| Proceeds from disposals of equipment on operating leases | 6,621 | 6,575 | 4,903 | 3,943 |
| Proceeds from disposals of fixed assets | 511 | 507 | 515 | 576 |
| Payments for acquisitions of businesses | (1,298) | (1,289) | (857) | (607) |
| Proceeds from disposals of businesses | 1,345 | 1,336 | 685 | 1,336 |
| Additions to receivables from financial services | (102,855) | (102,140) | (81,196) | (70,154) |
| Repayments of receivables from financial services: | | | | |
| – Finance receivables collected | 42,221 | 41,928 | 33,784 | 22,257 |
| – Proceeds from sales of finance receivables | 52,206 | 51,843 | 40,950 | 44,336 |
| Acquisitions of securities (other than trading) | (4,426) | (4,395) | (4,617) | (5,190) |
| Proceeds from sales of securities (other than trading) | 3,745 | 3,719 | 2,734 | 3,828 |
| Change in other cash | (748) | (743) | (1,641) | 685 |
| **Cash used for investing activities** | (32,335) | (32,110) | (23,445) | (14,530) |
| Change in commercial paper borrowings and short-term financial liabilities | 9,398 | 9,333 | 2,503 | 1,781 |
| Additions to long-term financial liabilities | 13,434 | 13,340 | 9,491 | 9,057 |
| Repayment of financial liabilities | (4,643) | (4,611) | (4,126) | (4,612) |
| Dividends paid (Financial Services: including profit transferred from subsidiaries) | (2,395) | (2,378) | (6,454) | (1,267) |
| Proceeds from issuance of capital stock | 165 | 164 | 4,076 | 231 |
| Purchase of treasury stock | (87) | (86) | (169) | (1,888) |
| Proceeds from special distribution tax refund | – | – | 1,487 | – |
| **Cash provided by (used for) financing activities** | 15,872 | 15,762 | 6,808 | 3,302 |
| Effect of foreign exchange rate changes on cash and cash equivalents maturing within 3 months | 811 | 805 | (397) | 646 |
| Net increase (decrease) in cash and cash equivalents maturing within 3 months | 2,497 | 2,480 | (353) | 1,755 |
| **Cash and cash equivalents (maturing within 3 months)** | | | | |
| **At beginning of period** | 6,325 | 6,281 | 6,634 | 4,879 |
| **At end of period** | 8,822 | 8,761 | 6,281 | 6,634 |

The accompanying notes are an integral part of these Consolidated Financial Statements.
All 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

| | Industrial Business Year ended December 31, 99 € | 98 € | 97 € | Financial Services Year ended December 31, 99 € | 98 € | 97 € |
|---|---|---|---|---|---|---|
| Net income | 5,157 | 4,255 | 6,090 | 589 | 565 | 457 |
| Income (loss) applicable to minority interests | 16 | 128 | 114 | 2 | 2 | 1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Tax benefit relating to a special distribution | – | – | (1,487) | – | – | – |
| Gains on disposals of businesses (see also Note 9) | (1,181) | (296) | (569) | – | – | – |
| Depreciation and amortization of equipment on operating leases | 268 | 195 | 37 | 3,047 | 1,777 | 1,419 |
| Depreciation and amortization of fixed assets | 5,966 | 5,321 | 4,820 | 69 | 38 | 27 |
| Change in deferred taxes | 1,496 | 1,560 | (997) | 906 | 399 | 292 |
| Losses on early extinguishment of debt (extraordinary item) | 19 | 129 | – | – | – | – |
| Change in financial instruments | 247 | (191) | 146 | – | – | – |
| (Gain) loss on disposal of fixed assets/securities | (1,213) | (317) | (217) | (2) | (51) | 13 |
| Change in trading securities | 495 | 251 | (387) | – | – | – |
| Change in accrued liabilities | 3,913 | 1,375 | 837 | 88 | 44 | 3 |
| Change in other operating assets and liabilities: | | | | | | |
| – inventories, net | (2,387) | (1,040) | (604) | (49) | 64 | (140) |
| – trade receivables | (541) | (812) | (578) | (192) | 124 | 23 |
| – trade liabilities | 1,222 | 1,668 | 1,709 | 109 | 159 | – |
| – other assets and liabilities | (415) | 224 | 146 | 394 | 1,110 | 1,182 |
| **Cash provided by operating activities** | 13,062 | 12,450 | 9,060 | 4,961 | 4,231 | 3,277 |
| Purchases of fixed assets: | | | | | | |
| – Increase in equipment on operating leases | (3,192) | (3,057) | (2,364) | (16,144) | (7,188) | (4,861) |
| – Purchases of property, plant and equipment | (9,407) | (8,118) | (8,027) | (63) | (37) | (24) |
| – Purchases of other fixed assets | (524) | (245) | (226) | (121) | (60) | (38) |
| Proceeds from disposals of equipment on operating leases | 3,303 | 2,691 | 2,091 | 3,272 | 2,212 | 1,852 |
| Proceeds from disposals of fixed assets | 411 | 500 | 555 | 96 | 15 | 21 |
| Payments for acquisitions of businesses | (1,145) | (814) | (543) | (144) | (43) | (64) |
| Proceeds from disposals of businesses | 1,336 | 682 | 1,336 | – | 3 | – |
| Additions to receivables from financial services | (28) | 63 | 1,067 | (102,112) | (81,259) | (71,221) |
| Repayments of receivables from financial services: | | | | | | |
| – Finance receivables collected | – | – | (857) | 41,928 | 33,784 | 23,114 |
| – Proceeds from sales of finance receivables | – | – | – | 51,843 | 40,950 | 44,336 |
| Acquisitions of securities (other than trading) | (3,958) | (2,015) | (3,489) | (437) | (2,602) | (1,701) |
| Proceeds from sales of securities (other than trading) | 3,333 | 247 | 2,065 | 386 | 2,487 | 1,763 |
| Change in other cash | (462) | (1,455) | 1,365 | (281) | (186) | (680) |
| **Cash used for investing activities** | (10,333) | (11,521) | (7,027) | (21,777) | (11,924) | (7,503) |
| Change in commercial paper borrowings and short-term financial liabilities | (260) | (1,136) | 102 | 9,593 | 3,639 | 1,679 |
| Additions to long-term financial liabilities | 918 | 322 | 2,020 | 12,422 | 9,169 | 7,037 |
| Repayment of financial liabilities | 439 | 944 | (768) | (5,050) | (5,070) | (3,844) |
| Dividends paid (Financial Services: including profit transferred from subsidiaries) | (2,373) | (5,865) | (776) | (5) | (589) | (491) |
| Proceeds from issuance of capital stock | 82 | 3,561 | 55 | 82 | 515 | 176 |
| Purchase of treasury stock | (86) | (169) | (1,888) | – | – | – |
| Proceeds from special distribution tax refund | – | 1,487 | – | – | – | – |
| **Cash provided by (used for) financing activities** | (1,280) | (856) | (1,255) | 17,042 | 7,664 | 4,557 |
| Effect of foreign exchange rate changes on cash and cash equivalents maturing within 3 months | 750 | (371) | 610 | 55 | (26) | 36 |
| Net increase (decrease) in cash and cash equivalents maturing within 3 months | 2,199 | (298) | 1,388 | 281 | (55) | 367 |
| **Cash and cash equivalents (maturing within 3 months)** | | | | | | |
| **At beginning of period** | 5,660 | 5,958 | 4,570 | 621 | 676 | 309 |
| **At end of period** | 7,859 | 5,660 | 5,958 | 902 | 621 | 676 |

# CONSOLIDATED FIXED ASSETS SCHEDULE

| | *Acquisition or Manufacturing Costs* | | | | | | |
|---|---|---|---|---|---|---|---|
| **(in millions of €)** | *Balance at January 1,* **1999** | *Currency change* | *Acquisitions/ disposals of businesses* | *Additions* | *Reclassi-fications* | *Disposals* | *Balance at December 31,* **1999** |
| Other intangible assets | 737 | 55 | 21 | 236 | 22 | 88 | 983 |
| Goodwill | 3,564 | 359 | 108 | 103 | – | 73 | 4,061 |
| **Intangible assets** | 4,301 | 414 | 129 | 339 | 22 | 161 | 5,044 |
| Land, leasehold improvements and buildings including buildings on land owned by others | 18,018 | 983 | 196 | 997 | 270 | 232 | 20,232 |
| Technical equipment and machinery | 26,245 | 2,085 | 201 | 2,796 | 336 | 990 | 30,673 |
| Other equipment, factory and office equipment | 17,135 | 1,436 | 117 | 2,699 | 414 | 1,385 | 20,416 |
| Advance payments relating to plant and equipment and construction in progress | 4,539 | 632 | 20 | 2,997 | (1,042) | 46 | 7,100 |
| **Property, plant and equipment** | 65,937 | 5,136 | 534 | 9,489 | (22) | 2,653 | 78,421 |
| Investments in affiliated companies | 718 | 40 | (29) | 370 | (2) | 35 | 1,062 |
| Loans to affiliated companies | 29 | 4 | 8 | 60 | – | 59 | 42 |
| Investments in associated companies | 358 | 22 | 19 | 158 | 89 | 100 | 546 |
| Investments in related companies | 1,178 | 101 | 15 | 182 | (87) | 66 | 1,323 |
| Loans to associated and related companies | 71 | 9 | (1) | 142 | – | 1 | 220 |
| Long-term securities | 676 | – | . | 109 | – | – | 785 |
| Other loans | 195 | 8 | 9 | 207 | – | 46 | 373 |
| **Investments and long-term financial assets** | 3,225 | 184 | 21 | 1,228 | – | 307 | 4,351 |
| **Equipment on operating leases**[2] | 18,129 | 3,139 | 112 | 19,336 | – | 8,038 | 32,678 |

[1]) Currency translation changes with period end rates.
[2]) Excluding initial direct costs.

The accompanying notes are an integral part of these Consolidated Financial Statements.
All 1998 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

| Depreciation/Amortization | | | | | | | Book Value[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 1999 | Currency change | Acquisitions/ disposals of businesses | Additions | Reclassi-fications | Disposals | Balance at December 31, 1999 | Balance at December 31, 1999 | Balance at December 31, 1998 | |
| 386 | 17 | 8 | 137 | 2 | 31 | 519 | 464 | 351 | Other intangible assets |
| 1,354 | 131 | 22 | 215 | . | 20 | 1,702 | 2,359 | 2,210 | Goodwill |
| **1,740** | **148** | **30** | **352** | **2** | **51** | **2,221** | **2,823** | **2,561** | **Intangible assets** |
| 8,422 | 197 | 47 | 631 | (6) | 132 | 9,159 | 11,073 | 9,596 | Land, leasehold improvements and buildings including buildings on land owned by others |
| 16,759 | 922 | 115 | 2,538 | 2 | 761 | 19,575 | 11,098 | 9,486 | Technical equipment and machinery |
| 11,224 | 804 | 72 | 2,482 | 2 | 1,332 | 13,252 | 7,164 | 5,911 | Other equipment, factory and office equipment |
| – | . | – | 4 | . | 3 | 1 | 7,099 | 4,539 | Advance payments relating to plant and equipment and construction in progress |
| **36,405** | **1,923** | **234** | **5,655** | **(2)** | **2,228** | **41,987** | **36,434** | **29,532** | **Property, plant and equipment** |
| 92 | . | 15 | 15 | (3) | 2 | 117 | 945 | 626 | Investments in affiliated companies |
| 4 | – | – | – | – | – | 4 | 38 | 25 | Loans to affiliated companies |
| 8 | . | 11 | 7 | – | 10 | 16 | 530 | 350 | Investments in associated companies |
| 214 | . | 15 | 4 | 3 | 20 | 216 | 1,107 | 964 | Investments in related companies |
| 38 | – | – | – | – | – | 38 | 182 | 33 | Loans to associated and related companies |
| 1 | – | – | – | – | . | 1 | 784 | 675 | Long-term securities |
| 17 | . | – | 2 | – | 2 | 17 | 356 | 178 | Other loans |
| **374** | **.** | **41** | **28** | **–** | **34** | **409** | **3,942** | **2,851** | **Investments and long-term financial assets** |
| **3,563** | **555** | **13** | **3,315** | **–** | **1,872** | **5,574** | **27,104** | **14,566** | **Equipment on operating leases[2]** |

# 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 accounts for certain joint ventures in accordance with the proportionate method of consolidation (see Note 3). Prior to December 31, 1998, DaimlerChrysler prepared and reported its consolidated financial statements in Deutsche Marks ("DM"). With the introduction of the euro ("€") on January 1, 1999, DaimlerChrysler has presented the accompanying consolidated financial statements in euro. Accordingly, the Deutsche Mark consolidated financial statements for prior periods have been restated into euro using the Official Fixed Conversion Rate of €1 = DM1.95583. DaimlerChrysler's 1998 and 1997 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 1999 are also presented in U.S. dollars ("$"), the latter being unaudited and presented solely for the convenience of the reader at the rate of €1 = $1.0070, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 1999.

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 for 1998 and 1997 have been restated as if the companies had been combined for all periods presented. In connection with the Merger, €685 of merger costs (€401 after tax) were incurred and 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.

Certain prior year balances have been reclassified to conform with the Group's current year presentation.

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 the financial services businesses. 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 industrial and 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 industrial or financial services business activities. Transactions between the Group's industrial and financial businesses principally represent intercompany sales of products, intercompany borrowings and related interest, and other support under special vehicle financing programs. The effects of transactions between the industrial and financial services businesses have been eliminated within the industrial business columns.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Consolidation* – All material companies in which DaimlerChrysler 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). All other investments are accounted for at cost.

For business combinations accounted for under the purchase accounting method, 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 euro are generally translated using period-end exchange rates while the statements of income 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 euro 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 significant currencies of non-euro participating countries used in preparation of the consolidated financial statements were as follows (prior periods have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate of €1 = DM1.95583):

| | | *Exchange rate at December 31,* | | | *Annual average exchange rate* | |
|---|---|---|---|---|---|---|
| | | **1999** | **1998** | **1999** | **1998** | **1997** |
| **Currency:** | | **€1 =** | **€1 =** | **€1 =** | **€1 =** | **€1 =** |
| Brazil | BRL | **1.80** | **1.42** | **1.93** | **1.29** | **1.22** |
| Great Britain | GBP | **0.62** | **0.70** | **0.66** | **0.67** | **0.69** |
| Japan | JPY | **102.73** | **134.84** | **121.25** | **144.96** | **136.20** |
| USA | USD | **1.00** | **1.17** | **1.07** | **1.11** | **1.13** |

*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 Group 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. Operating lease income is recorded when earned on a straight-line basis. 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.

The Group sells significant amounts of finance 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 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 for the years ended December 31, 1998 and 1997 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, other than goodwill, are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 40 years) on a straight-line basis. 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.

*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 their estimated useful lives, primarily using the units of production method. The costs of internally produced equipment and facilities include 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.

(in millions of €, except per share amounts)

*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 depreciated over its estimated useful life, generally 3 to 14 years, using the straight-line method.

*Long-Lived Assets* – The Group reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

*Non-fixed Assets* – Non-fixed 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 has been disclosed.

*Marketable Securities and Investments* – Securities are accounted for at fair values, if readily determinable. Unrealized gains and losses on trading securities, representing 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 income.

*Inventories* — Inventories are 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, options and swaps, security options and interest rate 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, "Employers' Accounting for Postretirement Benefits Other Than Pensions." An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. The effects of accrued liabilities relating to personnel and social costs are valued at their net present value where appropriate.

*Use of Estimates* – Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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, 1999, DaimlerChrysler adopted Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," issued by the American Institute of Certified Public Accountants. 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 did not 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 and 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. With the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133," this Standard is effective for fiscal years beginning after June 15, 2000. DaimlerChrysler plans to adopt SFAS 133 effective January 1, 2000. The new Standard will permit the Group to apply hedge accounting for certain foreign currency derivative contracts on qualifying forecasted transactions. Under the Group's current accounting policies such contracts are marked to market with unrealized gains and losses impacting current earnings. Accordingly, application of the new Standard in accounting for such foreign currency derivative contracts may result in lower current period earnings volatility relating to the Group's foreign currency risk management in periods of significant changes in exchange rates.

### 3. SCOPE OF CONSOLIDATION

*Scope of Consolidation* – DaimlerChrysler comprises 549 foreign and domestic subsidiaries (1998: 481) and 16 joint ventures (1998: 82); the latter are generally accounted for on a pro rata basis. A total of 55 (1998: 27) subsidiaries are accounted for in the consolidated financial statements using the equity method of accounting. During 1999, 76 subsidiaries and 2 joint ventures were included in the consolidated financial statements for the first time. A total of 69 subsidiaries and 7 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 343 subsidiaries ("affiliated companies") are not consolidated as their combined influence on the financial position, results of operations, and cash flows of the Group is not material (1998: 313). The effect of such non-consolidated subsidiaries for all years presented on consolidated assets, revenues and net income of DaimlerChrysler was approximately 1%. In addition, 7 (1998: 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 109 associated companies (1998: 110) accounted for at cost and recorded under investments in related companies as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Group.

*Investment in Adtranz* – In the first quarter of 1999, DaimlerChrysler acquired the remaining outstanding shares of Adtranz, a rail systems joint venture, from Asea Brown Boveri for $472 (€441). The acquisition has been accounted for under the purchase method of accounting. The purchase price has been allocated to assets acquired and liabilities assumed based on their estimated fair values. This allocation resulted in goodwill of €100, which will be amortized on a straight-line basis over 17 years. Prior to the acquisition, the Group accounted for its investment in Adtranz, including its 65 subsidiaries in 1998, using the proportionate method of consolidation. Accordingly, the consolidated financial statements of DaimlerChrysler as of December 31, 1998 and for the years ended December 31, 1998 and 1997 included DaimlerChrysler's 50% interest in the assets and liabilities, revenues and expenses and cash flows of Adtranz.

Under U.S. GAAP, DaimlerChrysler's investment in Adtranz was required to be accounted for using the equity method of accounting. The differences in accounting treatment between the proportionate and equity methods would not have affected reported stockholders' equity or net income of DaimlerChrysler. Under the equity method of accounting, DaimlerChrysler's net investment in Adtranz would have been included within investments in the balance sheet and its share of the net 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 have been reported as part of financial income, net in the Group's statement of income. Additionally, Adtranz would have impacted 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 as of December 31, 1998 and for the years ended December 31, 1998 and 1997. The amounts represent those used in the DaimlerChrysler consolidation, including goodwill resulting from the formation of Adtranz. Other companies included in the consolidated financial statements according to the proportionate method are not material.

| Balance Sheet Information | *At December 31,* 1998 |
|---|---|
| Fixed assets[1] | 728 |
| Non-fixed assets | 842 |
| Total assets | 1,570 |
| Stockholders' equity | 385 |
| Minority interests | 7 |
| Accrued liabilities | 542 |
| Liabilities | 636 |
| Total liabilities and stockholders' equity | 1,570 |

[1] Includes net goodwill resulting from the formation of Adtranz of €348.

| Statement of income information | *Year ended December 31,* 1998 | 1997 |
|---|---|---|
| Revenues | 1,658 | 1,631 |
| Operating loss[1] | (322) | (222) |
| Net loss | (316) | (154) |

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

| Cash flow information | *Year ended December 31,* 1998 | 1997 |
|---|---|---|
| Cash flows from: | | |
| Operating activities | (130) | 72 |
| Investing activities | (84) | (12) |
| Financing activities | 161 | (50) |
| Effect of foreign exchange on cash | (2) | . |
| Change in cash (maturing within 3 months) | (55) | 10 |
| Cash (maturing within 3 months) at beginning of period | 155 | 145 |
| Cash (maturing within 3 months) at end of period | 100 | 155 |

In 1998, cash maturing within 3 months includes €30 (1997: €51) held by DaimlerChrysler AG in connection with internal cash concentration procedures.

(in millions of €, except per share amounts)

**4. DISPOSITIONS**

Due to an initial public offering in March 1999 as well as to the selling of a substantial portion of its remaining interests in September 1999, debis AG, a wholly-owned subsidiary of DaimlerChrysler, reduced its remaining interest in debitel AG to 10 percent (see Note 9).

In March 1998, the Group's semiconductor business was sold to an American company, Vishay Intertechnology, Inc. Also, 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. The total pretax gain from these dispositions was approximately €300.

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 pretax gain of €110.

In July 1997, debis AG terminated its strategic relationship with Cap Gemini Sogeti S.A. through the sale of its 24.4% interest resulting in a pretax 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. The IPO of the common stock interest resulted in a pretax and after-tax gain of €65. 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 (€53 after taxes) of previously deferred profits from the sale of vehicles from DaimlerChrysler to DTAG.

### 5. FUNCTIONAL COSTS AND OTHER EXPENSES

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

| *Year ended December 31,* | 1999 | 1998 | 1997 |
|---|---|---|---|
| Selling expenses | 11,744 | 10,100 | 9,663 |
| Administration expenses | 5,145 | 5,217 | 4,709 |
| Goodwill amortization and writedowns | 215 | 227 | 210 |
| Other expenses | 428 | 685 | 1,039 |
| | 17,532 | 16,229 | 15,621 |

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,* | 1999 | 1998 | 1997 |
|---|---|---|---|
| Wages and salaries | 21,044 | 19,982 | 18,656 |
| Social levies | 3,179 | 2,990 | 2,817 |
| Net periodic pension cost (see Note 22a) | 931 | 1,126 | 1,077 |
| Net periodic postretirement benefit cost (see Note 22a) | 783 | 866 | 755 |
| Other expenses for pensions and retirements | 221 | 69 | 65 |
| | 26,158 | 25,033 | 23,370 |

Number of employees (annual average):

| *Year ended December 31,* | 1999 | 1998 | 1997 |
|---|---|---|---|
| Hourly employees | 279,124 | 268,764 | 261,426 |
| Salaried employees | 170,539 | 152,415 | 147,882 |
| Trainees/apprentices | 13,898 | 12,760 | 12,353 |
| | 463,561 | 433,939 | 421,661 |

In 1999, 14,851 people (1998: 36,024 people; 1997: 34,448 people) were employed in joint venture companies.

In 1999, the total remuneration paid by Group companies to the members of the Board of Management of DaimlerChrysler AG amounted to €55.4, and the remuneration paid to the members of the Supervisory Board of DaimlerChrysler AG totaled €1.2. Disbursements to former members of the Board of Management of DaimlerChrysler AG and their survivors amounted to €23.4. An amount of €100.5 has been accrued in the financial statements of DaimlerChrysler AG for pension obligations to former members of the Board of Management and their survivors. As of December 31, 1999, no advances or 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 (€132, €99 and €95 in 1999, 1998 and 1997, respectively), rental income, other than relating to financial services leasing activities (€153, €138 and €87 in 1999, 1998 and 1997, respectively) and reductions in certain accruals (€130, €199 and €154 in 1999, 1998 and 1997, respectively). In 1998 and 1997, gains on sales of companies of €389 and €117, respectively, were recognized in other income.

(in millions of €, except per share amounts)

## 7. FINANCIAL INCOME, NET

| | *Year ended December 31,* 1999 | 1998 | 1997 |
|---|---|---|---|
| Income (loss) from investments of which from affiliated companies €41 (1998: €(20); 1997: €17) | 19 | (111) | 66 |
| Gains, net from disposals of investements and shares in affiliated and associated companies | 41 | 37 | 459 |
| Write-down of investments and shares in affiliated companies | (19) | (55) | (76) |
| Income from companies included at equity | 23 | 59 | 36 |
| **Income (loss) from investments, net** | 64 | (70) | 485 |
| Other interest and similar income of which from affiliated companies €17 (1998: €13; 1997: €10) | 1,382 | 1,327 | 1,320 |
| Interest and similar expenses | (729) | (702) | (640) |
| **Interest income, net** | 653 | 625 | 680 |
| Income from securities and long-term receivables | 913 | 231 | 376 |
| Write-down of securities and long-term receivables | (17) | (10) | (10) |
| Realized and unrealized gains (losses) on derivative financial instruments | (1,078) | 145 | (794) |
| Other, net | (202) | (158) | (104) |
| **Other financial income (loss), net** | (384) | 208 | (532) |
| | 333 | 763 | 633 |

The Group capitalized interest expenses related to qualifying construction projects of €163 (1998: €186; 1997: €207).

## 8. INCOME TAXES

Income before income taxes and extraordinary items amounted to €9,657 (1998: €8,093; 1997: €6,145), of which €2,688 was generated by the Group's operations in Germany (1998: €2,229; 1997: €1,450).

Income tax expense (benefit) consists of the following:

| | *Year ended December 31,* 1999 | 1998 | 1997 |
|---|---|---|---|
| Current taxes | | | |
| Germany | 1,074 | (267) | (1,472) |
| Foreign | 1,538 | 1,322 | 1,660 |
| Deferred taxes | | | |
| Germany | 836 | 967 | (910) |
| Foreign | 1,085 | 992 | 205 |
| | 4,533 | 3,014 | (517) |

In 1999, the tax laws in Germany were changed including a reduction in the retained corporate income tax rate from 45% to 40% and the broadening of the tax base. The effects of the changes in German tax laws were recognized as a charge of €812 (basic: €0.81 per share; diluted: €0.80 per share) in the consolidated statement of income in 1999. The effects of the reduction in the tax rate on the deferred tax assets and liabilities of the Group's German companies as of December 31, 1998 amounted to €290. The broadening of the tax base resulted in tax expense of €522.

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 1999, retained corporate income is initially subject to a federal corporate tax of 40% (1998 and 1997: 45%) plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 42.2% (1998: 47.475%; 1997: 48.375%). Upon distribution of certain retained earnings generated in Germany to stockholders, the corporate income tax rate on the earnings is adjusted to 30%, plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on the distribution corporate tax, for a total of 31.65% (1998: 31.65%; 1997: 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 1999 are calculated using effective corporate income tax rates of 42.2% (1998 and 1997: 47.475%) plus the after federal tax benefit rate for trade tax of 9.3% (1998 and 1997: 8.525%). The effect of the tax rate reductions in 1999 and 1997 on deferred tax balances are reflected separately in the reconciliations presented below.

A reconciliation of income taxes determined using the German corporate tax rate of 42.2% (1998: 47.475%; 1997: 48.375%) plus the after federal tax benefit rate for trade taxes of 9.3% (1998: 8.525%; 1997: 8.625%) for a combined statutory rate of 51.5% in 1999 (1998: 56%; 1997: 57%) is as follows:

| | *Year ended December 31,* | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Expected expense for income taxes | 4,973 | 4,532 | 3,503 |
| Effect of changes in 1999 German tax laws | 812 | – | – |
| Change of solidarity surcharge in 1997 | – | – | 68 |
| Credit for dividend distributions | (500) | (515) | (1,624) |
| Foreign tax rate differential | (966) | (1,012) | (813) |
| Release of valuation allowances on German deferred tax assets as of December 31, 1997 | – | – | (1,003) |
| Changes in valuation allowances on German deferred tax assets | 23 | 112 | (465) |
| Write-downs of investments, different for tax purposes | (28) | (18) | (240) |
| Amortization of non-deductible goodwill | 33 | 78 | 55 |
| Other | 186 | (163) | 2 |
| **Actual expense (benefit) for income taxes** | 4,533 | 3,014 | (517) |

The 1999 and 1998 income tax credits from dividend distributions amounted to €500 and €515, respectively, and reflected mainly the tax benefits from the dividend distributions of €2.35 per Ordinary Share to be paid in respect of 1999 and 1998.

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.

Deferred income tax assets and liabilities are summarized as follows:

| | *December 31,* | |
|---|---|---|
| | 1999 | 1998 |
| Property, plant and equipment | 1,217 | 2,063 |
| Equipment on operating leases | 920 | 1,068 |
| Investments and long-term financial assets | 1,983 | 97 |
| Inventories | 1,424 | 1,328 |
| Receivables | 993 | 527 |
| Net operating loss and tax credit carryforwards | 1,011 | 1,056 |
| Retirement plans | 3,662 | 3,880 |
| Other accrued liabilities | 4,248 | 4,166 |
| Liabilities | 1,482 | 846 |
| Deferred income | 1,246 | 1,144 |
| Other | 490 | 452 |
| | 18,676 | 16,627 |
| Valuation allowances | (363) | (411) |
| **Deferred tax assets** | 18,313 | 16,216 |
| Property, plant and equipment | (3,346) | (2,743) |
| Equipment on operating leases | (5,600) | (4,252) |
| Inventories | (499) | (483) |
| Receivables | (3,278) | (3,645) |
| Prepaid expenses | (508) | (450) |
| Retirement plans | (4,127) | (2,069) |
| Other accrued liabilities | (671) | (367) |
| Taxes on undistributed earnings of foreign subsidiaries | (520) | (297) |
| Other | (1,150) | (1,059) |
| **Deferred tax liabilities** | (19,699) | (15,365) |
| **Deferred tax assets (liabilities), net** | (1,386) | 851 |

At December 31, 1999, the Group had corporate tax net operating losses ("NOLs") and credit carryforwards amounting to €2,232 (1998: €1,724) and German trade tax NOLs amounting to €1,352 (1998: €2,156). In 1999, the corporate tax NOLs and credit carryforwards relate to losses of foreign and domestic non-Organschaft companies and are partly limited in their use to the Group. The valuation allowances on deferred tax assets of foreign and domestic operations decreased by €48. In future periods, depending upon the 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.

(in millions of €, except per share amounts)

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

| | *December 31, 1999* Total | thereof non-current | *December 31, 1998* Total | thereof non-current |
|---|---|---|---|---|
| Deferred tax assets | 3,806 | 2,937 | 5,016 | 3,979 |
| Deferred tax liabilities | (5,192) | (4,689) | (4,165) | (2,884) |
| **Deferred tax assets (liabilities), net** | (1,386) | (1,752) | 851 | 1,095 |

DaimlerChrysler provided foreign withholding taxes of €343 (1998: €297) on €6,868 (1998: €5,948) in cumulative undistributed earnings of foreign subsidiaries because these earnings are not intended to be permanently reinvested in those operations. In addition, beginning in1999, the German tax law requires that deductible expenses are reduced by 5% of foreign dividends received. The additional German tax of €177 on the future payout of these foreign dividends was recognized in 1999 and included in "Effects of changes in 1999 German tax laws." The Group did not provide income taxes or foreign withholding taxes on €13,224 (1998: €6,016) 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 stockholders' equity, the expense (benefit) for income taxes consists of the following:

| | *Year ended December 31,* 1999 | 1998 | 1997 |
|---|---|---|---|
| Expense (benefit) for income taxes before extraordinary items | 4,533 | 3,014 | (517) |
| Income tax expense (benefit) of extraordinary items | 470 | (78) | – |
| Stockholders' equity for employee stock option expense in excess of amounts recognized for financial purposes | (31) | (212) | (39) |
| Stockholders' equity for items of other comprehensive income | (155) | 296 | 176 |
| | 4,817 | 3,020 | (380) |

## 9. EXTRAORDINARY ITEMS

In March 1999, debis AG, a wholly-owned subsidiary of DaimlerChrysler, sold a portion of its interests in debitel AG in an initial public offering of its ordinary shares for proceeds of €274. In September 1999, debis AG sold an additional portion of its remaining interests in debitel AG to Swisscom for proceeds of €924. The sales resulted in an extraordinary after-tax gain of €659 (net of income tax expense of €481) and reduced debis' remaining interest in debitel to 10 percent. U.S. GAAP requires that when a significant disposition of assets or businesses occurs within two years subsequent to accounting for a business combination using the pooling-of-interests method of accounting that the gain or loss be reported as an extraordinary item. Due to the significance of the September 1999 transaction, the gains from both the March and September dispositions have been reported in the accompanying consolidated statements of income as extraordinary items, net of taxes.

In 1999 the Group extinguished €51 of long-term debt resulting in an extraordinary after tax loss of €19 (net of income tax benefit of €11).

In December 1998, DaimlerChrysler extinguished €257 of the outstanding principal amount of its Auburn Hills Trust Guaranteed Exchangeable Certificates due 2020 (the "Certificates") at a cost of €454. The extinguishment of the Certificates resulted in an extraordinary after tax loss of €129 (net of income tax benefit of €78).

# NOTES TO THE CONSOLIDATED BALANCE SHEETS

## 10. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET

Information with respect to changes in 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 and intangible pension assets.

Property, plant and equipment includes buildings, technical equipment and other equipment capitalized under capital lease agreements of €368 (1998: €394). Depreciation expense on assets under capital lease arrangements was €32 (1998: €38; 1997: €29).

## 11. EQUIPMENT ON OPERATING LEASES, NET

Information with respect to changes in the Group's equipment on operating leases is presented in the Consolidated Fixed Assets Schedule included herein. Of the total equipment on operating leases, €26,409 represent automobiles and commercial vehicles (1998: €14,078).

Noncancellable future lease payments due from customers for equipment on operating leases at December 31, 1999 are as follows:

| | |
|---|---|
| 2000 | 4,939 |
| 2001 | 3,956 |
| 2002 | 2,102 |
| 2003 | 459 |
| 2004 | 178 |
| thereafter | 187 |
| | 11,821 |

## 12. INVENTORIES

| | At December 31, 1999 | 1998 |
|---|---|---|
| Raw materials and manufacturing supplies | 2,602 | 2,278 |
| Work-in-process<br>thereof relating to long-term contracts and programs in process €2,000 (1998: €919) | 6,285 | 4,568 |
| Finished goods, parts and products held for resale | 9,887 | 7,631 |
| Advance payments to suppliers | 518 | 312 |
| | 19,292 | 14,789 |
| Less: Advance payments received<br>thereof relating to long-term contracts and programs in process €1,166 (1998: €578) | (4,307) | (2,993) |
| | 14,985 | 11,796 |

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 €691 (1998: €549).

## 13. TRADE RECEIVABLES

| | At December 31, 1999 | 1998 |
|---|---|---|
| Receivable from sales of goods and services | 8,859 | 8,020 |
| Long-term contracts and programs, unbilled, net of advance payments received | 779 | 442 |
| | 9,638 | 8,462 |
| Allowance for doubtful accounts | (798) | (857) |
| | 8,840 | 7,605 |

As of December 31, 1999, €469 of the trade receivables mature after more than one year (1998: €399).

(in millions of €, except per share amounts)

## 14. RECEIVABLES FROM FINANCIAL SERVICES

| | At December 31, 1999 | 1998 |
|---|---|---|
| Receivables from: | | |
| Sales financing | 32,696 | 20,635 |
| Finance leases | 11,440 | 9,542 |
| | 44,136 | 30,177 |
| Initial direct costs | 143 | 96 |
| Unearned income | (5,977) | (4,245) |
| Unguaranteed residual value of leased assets | 1,032 | 804 |
| | 39,334 | 26,832 |
| Allowance for doubtful accounts | (599) | (364) |
| | 38,735 | 26,468 |

As of December 31, 1999, €21,194 of the financing receivables mature after more than one year (1998: €14,733).

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 in each of the years following December 31, 1999 are as follows:

| | |
|---|---|
| 2000 | 20,184 |
| 2001 | 8,043 |
| 2002 | 5,935 |
| 2003 | 3,568 |
| 2004 | 2,166 |
| thereafter | 4,240 |
| | 44,136 |

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

In the normal course of business, the Group sells to third parties certain of its receivables from financial services. In 1999, the Group sold financial receivables for proceeds of €51,843 (1998: €40,950; 1997: €44,336).

## 15. OTHER RECEIVABLES

| | At December 31, 1999 | 1998 |
|---|---|---|
| Receivables from affiliated companies | 850 | 480 |
| Receivables from related companies[1] | 1,250 | 804 |
| Other receivables and other assets | 11,598 | 10,740 |
| | 13,698 | 12,024 |
| Allowance for doubtful accounts | (1,127) | (1,249) |
| | 12,571 | 10,775 |

[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 include retained interests in sold receivables and subordinated asset backed certificates of €4,006 (1998: €3,046).

As of December 31, 1999, €3,390 of the other receivables mature after more than one year (1998: €4,199).

## 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 non-fixed assets are comprised of the following:

| | At December 31, 1999 | 1998 |
|---|---|---|
| Debt securities | 4,347 | 4,565 |
| Equity securities | 938 | 971 |
| Equity-based funds | 1,191 | 1,970 |
| Debt-based funds | 2,493 | 4,654 |
| | 8,969 | 12,160 |

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, 1999 | | | | At December 31, 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair | Unrealized | | | Fair | Unrealized | |
| | Cost | value | Gain | Loss | Cost | value | Gain | Loss |
| Available-for-sale | 8,114 | 8,486 | 522 | 150 | 10,501 | 11,183 | 706 | 24 |
| Trading | 487 | 483 | – | 4 | 934 | 977 | 44 | 1 |
| **Securities** | 8,601 | 8,969 | 522 | 154 | 11,435 | 12,160 | 750 | 25 |
| **Investments and long-term financial assets available-for-sale** | 296 | 784 | 488 | – | 278 | 675 | 397 | – |
| | 8,897 | 9,753 | 1,010 | 154 | 11,713 | 12,835 | 1,147 | 25 |

The aggregate costs, fair values and gross unrealized holding gains and losses per security class are as follows:

| | At December 31, 1999 | | | | At December 31, 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair | Unrealized | | | Fair | Unrealized | |
| | Cost | value | Gain | Loss | Cost | value | Gain | Loss |
| Equity securities | 977 | 1,662 | 698 | 13 | 1,116 | 1,623 | 512 | 5 |
| Debt securities issued by the German government and its agencies | 159 | 167 | 8 | – | 93 | 93 | – | – |
| Municipal securities | 20 | 20 | – | – | 418 | 418 | – | – |
| Debt securities issued by foreign governments | 1,682 | 1,654 | 13 | 41 | 892 | 893 | 4 | 3 |
| Corporate debt securities | 1,234 | 1,210 | – | 24 | 1,459 | 1,478 | 31 | 12 |
| Equity-based funds | 935 | 1,191 | 276 | 20 | 1,761 | 1,970 | 209 | – |
| Debt-based funds | 2,526 | 2,495 | 15 | 46 | 4,309 | 4,654 | 345 | – |
| Asset-backed securities | 622 | 616 | – | 6 | 597 | 595 | 1 | 3 |
| Other marketable debt securities | 255 | 255 | – | – | 134 | 134 | 1 | 1 |
| **Available-for-sale** | 8,410 | 9,270 | 1,010 | 150 | 10,779 | 11,858 | 1,103 | 24 |
| **Trading** | 487 | 483 | – | 4 | 934 | 977 | 44 | 1 |
| | 8,897 | 9,753 | 1,010 | 154 | 11,713 | 12,835 | 1,147 | 25 |

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

| | At December 31, | |
|---|---|---|
| **Available-for-sale** | 1999 | 1998 |
| Due within one year | 1,473 | 975 |
| Due after one year through five years | 1,806 | 2,122 |
| Due after five years through ten years | 477 | 129 |
| Due after ten years | 166 | 385 |
| | 3,922 | 3,611 |

Proceeds from disposals of available-for-sale securities were €6,540 (1998: €2,734; 1997: €1,432), including €4,059 related to the contribution to the DaimlerChrysler Pension Trust (see Note 22a). Gross realized gains from sales of available-for-sale securities were €627 (1998: €98; 1997: €92), while gross realized losses were €4 (1998: €8; 1997: €1). DaimlerChrysler uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Other securities classified as cash equivalents were approximately €5,400 and €4,600 at December 31, 1999 and 1998, respectively, and consisted primarily of purchase agreements, commercial paper and certificates of deposit.

(in millions of €, except per share amounts)

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include €338 (1998: €308) 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, 1999 | 1998 | 1997 |
|---|---|---|---|
| Cash and cash equivalents originally maturing within 3 months | 8,761 | 6,281 | 6,634 |
| Cash and cash equivalents originally maturing after 3 months | 338 | 308 | 175 |
| Securities | 8,969 | 12,160 | 10,180 |
| Other | 133 | 324 | 336 |
| | 18,201 | 19,073 | 17,325 |

The following represents supplemental information with respect to cash flows:

| | Year ended at December 31, 1999 | 1998 | 1997 |
|---|---|---|---|
| Interest paid | 3,315 | 2,553 | 1,953 |
| Income taxes paid | 1,883 | 993 | 1,699 |

## 19. PREPAID EXPENSES

Prepaid expenses are comprised of the following:

| | At December 31, 1999 | 1998 |
|---|---|---|
| Prepaid pension cost | 6,236 | 5,309 |
| Other prepaid expenses | 978 | 825 |
| | 7,214 | 6,134 |

As of December 31, 1999, €6,118 of the total prepaid expenses mature after more than one year (1998: €5,280).

## 20. STOCKHOLDERS' EQUITY

*Number of shares issued and outstanding*

DaimlerChrysler had issued and outstanding 1,003,261,403 and 1,001,733,220 registered, Ordinary Shares of no par value at December 31, 1999 and 1998, respectively. Each share represents approximately €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 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*

During the second half of 1999, DaimlerChrysler purchased approximately 1.2 million of its Ordinary Shares and reissued the shares to employees in connection with an employee share purchase plan.

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*

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 and to issue shares of up to €26 to employees.

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 for conversions. In addition, DaimlerChrysler is authorized to issue shares equaling up to €102 of capital stock in connection with convertible bonds or bonds with warrants issued or guaranteed by April 30, 2003.

*Convertible notes*
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 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 1999, 665 (1998: 3,713; 1997: 156) DaimlerChrysler Ordinary Shares were issued upon exercise.

During 1996, DaimlerChrysler Luxembourg Capital S.A., a wholly-owned 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 (as amended), entitles the bearer of the option to subscribe for shares of DaimlerChrysler AG. The option price per share is €42.67 in consideration of exchange of the notes or €44.49 in cash. During 1999, options for the subscription of 1,517,468 (1998: 5,027,002; 1997: 1,785) newly issued DaimlerChrysler Ordinary Shares have been exercised.

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

| | Year ended December 31, 1999 Pretax | 1999 Tax Effect | 1999 Net | 1998 Pretax | 1998 Tax Effext | 1998 Net | 1997 Pretax | 1997 Tax Effect | 1997 Net |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized gains (losses) on securities: | | | | | | | | | |
| Unrealized holding gains (losses) | **292** | **(163)** | **129** | **659** | **(354)** | **305** | **439** | **(230)** | **209** |
| Reclassification adjustments for (gains) losses included in net income | **(623)** | **313** | **(310)** | **(103)** | **57** | **(46)** | **(106)** | **54** | **(52)** |
| Net unrealized gains (losses) | **(331)** | **150** | **(181)** | **556** | **(297)** | **259** | **333** | **(176)** | **157** |
| Foreign currency translation adjustments | **2,431** | **–** | **2,431** | **(1,402)** | **–** | **(1,402)** | **1,865** | **–** | **1,865** |
| Minimum pension liability adjustments | **(13)** | **5** | **(8)** | **(2)** | **1** | **(1)** | **1** | **(.)** | **1** |
| **Other comprehensive income (loss)** | **2,087** | **155** | **2,242** | **(848)** | **(296)** | **(1,144)** | **2,199** | **(176)** | **2,023** |

*Miscellaneous*
Minority stockholders of Dornier GmbH have the right to exchange their interests in Dornier for holdings of equal value in DaimlerChrysler 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, 1999, DaimlerChrysler management has proposed a distribution of €2,358 (€2.35 per share) of the 1999 earnings of DaimlerChrysler AG as a dividend to the stockholders.

## 21. STOCK-BASED COMPENSATION

The Group currently has various stock appreciation rights ("SARs") plans resulting from newly adopted plans and the conversion of former Daimler-Benz Stock Option and former Chrysler plans. In addition, the Group has a stock option plan which was originally established by Daimler-Benz in 1996 and has been converted to options for DaimlerChrysler Ordinary Shares. The Group also has a performance-based stock award plan. Prior to the Merger, Chrysler had both fixed stock option and performance-based stock compensation plans. These Chrysler plans were terminated as a result of the Merger and all outstanding options and awards became vested and were converted into equivalent DaimlerChrysler Ordinary Shares. The Group accounts for all stock-based compensation plans in accordance with APB Opinion No. 25 and related interpretations.

*Stock Appreciation-Based Plans*
In the first half of 1999, DaimlerChrysler established a new stock appreciation rights plan (the "SAR Plan 1999") which provides 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 stock appreciation rights granted under the SAR Plan 1999 vest in equal installments on the second and third anniversaries from the date of grant. All unexercised

(in millions of €, except per share amounts)

SARs expire ten years from the grant date. The exercise price of a SAR is equal to the fair market value of DaimlerChrysler's Ordinary Shares on the date of grant. On February 24, 1999, the Group issued 11.4 million SARs at an exercise price of €89.70.

As discussed below, DaimlerChrysler converted all options granted under its existing stock option plans from 1997 and 1998 into SARs in the second quarter of 1999.

In conjunction with the consummation of the Merger in 1998, the Group implemented a SAR plan (22.3 million SARs at an exercise price of $75.56 each). 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 became 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 Group's SAR plans as of and for the years ended December 31, 1999 and 1998 is presented below (SARs in millions):

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | *Number of SARs* | *Weighted-avg. exercise price* | *Number of SARs* | *Weighted-avg. exercise price* |
| Outstanding at beginning of year | **22.2** | **€64.58** | – | – |
| Granted | **11.4** | **89.70** | 22.3 | €64.58 |
| Exchange of Stock Options for SARs | **15.2** | **79.79** | – | – |
| Exercised | **(2.2)** | **64.91** | (0.1) | 64.58 |
| Forfeited | **(0.8)** | **76.07** | – | – |
| Outstanding at end of year | **45.8** | **75.68** | 22.2 | 64.58 |
| SARs exercisable at year-end | **26.8** | **€64.92** | 11.3 | €64.58 |

The Group grants performance-based stock awards to certain eligible employees with performance periods of up to three years and track the value of DaimlerChrysler Ordinary Shares. The amount ultimately earned in cash compensation at the end of a performance period is based on the degree of achievement of corporate goals. In 1999, the Group issued €0.7 million performance-based stock awards.

Compensation expense or benefit on SARs and performance-based stock awards is recorded based on changes in the market price of DaimlerChrysler Ordinary Shares and, in case of performance-based stock awards, the attainment of certain performance goals. For the years ended December 31, 1999 and 1998 the Group recognized compensation benefit of €106 and compensation expense of €251, respectively, for SARs and performance-based stock awards.

*Stock Option Plans*
DaimlerChrysler established, based on shareholder approvals, the 1998, 1997 and 1996 Stock Option Plans (former Daimler-Benz plans), which provide for the granting of options ("Stock Options") for the purchase of DaimlerChrysler Ordinary Shares to certain members of management. The options granted under the Plans 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 (granted in 1998 and 1997) have been held for a 24 month waiting period. The specific terms of these plans 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 the second quarter of 1999, DaimlerChrysler converted all options granted under the 1998 and 1997 Stock Option Plans into SARs. All terms and conditions of the new SARs are identical to the stock options which were replaced, except that the holder of a SAR has the right to receive cash equal to the difference between the exercise price of the original option and the fair value of the Group's stock at the exercise date rather than receiving DaimlerChrysler Ordinary Shares.

Analysis of the Stock Options issued to management is as follows (options in millions):

| | 1999 Number of Stock Options | 1999 Average conversion price per share | 1998 Number of Stock Options | 1998 Average conversion price per share | 1997 Number of Stock Options | 1997 Average conversion price per share |
|---|---|---|---|---|---|---|
| Balance at beginning of year | 15.5 | €79.63 | 7.5 | €65.60 | 0.2 | €42.62 |
| Bonds sold | – | – | 8.2 | 92.30 | 7.4 | 65.90 |
| Converted | – | – | (.) | 42.62 | (0.1) | 42.62 |
| Repayment | (0.2) | 79.10 | (0.2) | 72.22 | (.) | 65.90 |
| Exchanged for SARs | (15.2) | 79.79 | – | – | – | – |
| Outstanding at year-end | 0.1 | 42.62 | 15.5 | 79.63 | 7.5 | 65.60 |
| Exercisable at year-end | 0.1 | €42.62 | 0.1 | €42.62 | 0.1 | €42.62 |

No compensation expense was recognized in 1999 in connection with the stock option plans (1998: €38; 1997: none).

*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 and 1997, and changes during the years ending on those dates is presented below (options in millions):

| | 1998 Chrysler shares under option | 1998 Weighted-average conversion price | 1997 Chrysler shares under option | 1997 Weighted-average conversion price |
|---|---|---|---|---|
| Outstanding at beginning of year | 30.7 | $27.71 | 28.5 | $23.68 |
| Granted | 9.2 | 39.82 | 10.1 | 33.72 |
| Exercised | (3.8) | 23.38 | (7.8) | 20.92 |
| Forfeited | (0.1) | 30.60 | (0.1) | 26.70 |
| Converted to DaimlerChrysler shares | (36.0) | 31.24 | – | – |
| Outstanding at end of year | – | – | 30.7 | 27.71 |
| Options exercisable at year-end | – | – | 13.4 | $23.43 |

No compensation expense was recognized for Chrysler fixed stock option grants since the options had conversion 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 earned 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 was €65 and €18 for 1998 and 1997, respectively. Unearned Chrysler Performance Share awards outstanding at the date of the Merger and December 31, 1997 were 1.9 million and 0.9 million, respectively. As a result of the Merger, all Performance Shares were vested and converted into DaimlerChrysler 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. No additional compensation expense would have been recognized under SFAS 123 in 1999.

(in millions of €, except per share amounts)

The fair value of the DaimlerChrysler stock options issued in conjunction with the 1998 and 1997 Stock Option Plans 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 and 1997:

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

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,* | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | *Total* | *Due after one year* | *Total* | *Due after one year* |
| Pension plans and similar obligations (see Note 22a) | 14,048 | 13,075 | 16,618 | 15,714 |
| Income and other taxes | 2,281 | 77 | 1,122 | 246 |
| Other accrued liabilities (see Note 22b) | 21,366 | 7,813 | 16,889 | 6,464 |
| | 37,695 | 20,965 | 34,629 | 22,424 |

**a) Pension plans and similar obligations**

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

| | *At December 31,* 1999 | 1998 |
|---|---|---|
| Pension liabilities (pension plans) | 5,588 | 9,148 |
| Accrued postretirement health and life insurance benefits | 7,756 | 7,020 |
| Other benefit liabilities | 704 | 450 |
| | 14,048 | 16,618 |

In the fourth quarter of 1999, DaimlerChrysler AG established the "DaimlerChrysler Pension Trust" to provide for future pension benefit payments in Germany. DaimlerChrysler AG contributed €4,059 of securities to the Pension Trust, thereby reducing accrued pension liabilities. In January 2000, DaimlerChrysler AG contributed an additional €1,275 of securities to the Pension Trust.

*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, 1999, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities, including 9.7 million shares of DaimlerChrysler Ordinary Shares with a market value of €750 in a U.S. plan, which were contributed in connection with the Merger. 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 German Plans and Non-German Plans (principally comprised of plans in the U.S.). DaimlerChrysler uses the rates of the 1998 Heubeck mortality tables for the valuation of the German pension liabilities.

| | At December 31, 1999 German Plans | At December 31, 1999 Non-German Plans | At December 31, 1998 German Plans | At December 31, 1998 Non-German Plans |
|---|---|---|---|---|
| Change in Projected benefit obligations: | | | | |
| Projected benefit obligations at beginning of year | **12,599** | **16,010** | **11,378** | **15,905** |
| Foreign currency exchange rate changes | **–** | **2,664** | **–** | **(1,212)** |
| Service cost | **267** | **430** | **258** | **429** |
| Interest cost | **756** | **1,185** | **732** | **1,033** |
| Plan amendments | **–** | **1,983** | **35** | **47** |
| Actuarial (gains) losses | **(28)** | **(2,142)** | **686** | **821** |
| Acquisitions and other | **68** | **518** | **12** | **(22)** |
| Benefits paid | **(539)** | **(1,070)** | **(502)** | **(991)** |
| Projected benefit obligations at end of year | **13,123** | **19,578** | **12,599** | **16,010** |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | **2,898** | **19,424** | **2,740** | **18,012** |
| Foreign currency exchange rate changes | **–** | **3,309** | **–** | **(1,410)** |
| Actual return on plan assets | **226** | **3,463** | **302** | **2,478** |
| Employer contributions | **4,059** | **166** | **–** | **1,305** |
| Plan participant contributions | **–** | **27** | **–** | **20** |
| Acquisitions and other | **–** | **498** | **–** | **7** |
| Benefits paid | **(149)** | **(1,064)** | **(144)** | **(988)** |
| Fair value of plan assets at end of year | **7,034** | **25,823** | **2,898** | **19,424** |

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

| | At December 31, 1999 German Plans | At December 31, 1999 Non-German Plans | At December 31, 1998 German Plans | At December 31, 1998 Non-German Plans |
|---|---|---|---|---|
| Funded status[*)] | **6,089** | **(6,245)** | **9,701** | **(3,414)** |
| Unrecognized acturarial net gains (losses) | **(691)** | **3,859** | **(723)** | **54** |
| Unrecognized prior service cost | **(7)** | **(3,530)** | **(6)** | **(1,530)** |
| Unrecognized net assets at date of initial application | **–** | **(252)** | **–** | **(357)** |
| Net amount recognized | **5,391** | **(6,168)** | **8,972** | **(5,247)** |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| Prepaid pension cost | **–** | **(6,236)** | **–** | **(5,309)** |
| Accrued pension liability | **5,391** | **197** | **8,972** | **176** |
| Intangible assets | **–** | **(98)** | **–** | **(94)** |
| Accumulated other comprehensive income | **–** | **(31)** | **–** | **(20)** |
| Net amount recognized | **5,391** | **(6,168)** | **8,972** | **(5,247)** |

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

(in millions of €, except per share amounts)

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 pension plans are situated. The weighted-average assumptions used in calculating the actuarial values for the principal pension plans were as follows (in %):

| | *German Plans* | | | *Non-German Plans* | | |
|---|---|---|---|---|---|---|
| | **1999** | **1998** | **1997** | **1999** | **1998** | **1997** |
| Weighted-average assumptions as of December 31: | | | | | | |
| Discount rate | **6.0** | **6.0** | **6.5** | **7.5** | **6.5** | **6.8** |
| Expected return on plan assets | **7.7** | **7.7** | **7.7** | **9.8** | **9.8** | **9.8** |
| Rate of compensation increase | **2.8** | **3.0** | **3.5** | **5.9** | **6.0** | **6.0** |

The components of net periodic pension cost were as follows:

| | **1999** | | **1998** | | **1997** | |
|---|---|---|---|---|---|---|
| | *German Plans* | *Non-German Plans* | *German Plans* | *Non-German Plans* | *German Plans* | *Non-German Plans* |
| Service cost | **267** | **430** | **258** | **429** | **243** | **295** |
| Interest cost | **756** | **1,185** | **732** | **1,033** | **718** | **998** |
| Expected return on plan assets | **(223)** | **(1,872)** | **(203)** | **(1,514)** | **(198)** | **(1,372)** |
| Amortization of | | | | | | |
| Unrecognized net actuarial losses (gains) | **1** | **41** | **(2)** | **80** | **(1)** | **54** |
| Unrecognized prior service cost | **–** | **214** | **–** | **187** | **(2)** | **196** |
| Unrecognized net obligation | **–** | **129** | **–** | **126** | **–** | **125** |
| Other | **1** | **2** | **(3)** | **3** | **–** | **21** |
| Net periodic pension cost | **802** | **129** | **782** | **344** | **760** | **317** |

The projected benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were €13,934 and €7,818, respectively, as of December 31, 1999 and €13,391 and €3,497, respectively, as of December 31, 1998.

*Other Postretirement Benefits*

Certain DaimlerChrysler operations in the U.S. and Canada 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, 1999, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities.

The following information is presented with respect to the Group's postretirement benefit plans.

| | At December 31, 1999 | 1998 |
|---|---|---|
| Change in accumulated postretirement benefit obligations: | | |
| Accumulated postretirement benefit obligations at beginning of year | 9,886 | 9,667 |
| Foreign currency exchange rate changes | 1,645 | (763) |
| Service cost | 209 | 189 |
| Interest cost | 702 | 646 |
| Plan amendments | 246 | 280 |
| Actuarial (gains) losses | (1,687) | 373 |
| Acquisitions and other | 51 | (52) |
| Benefits paid | (525) | (454) |
| Accumulated postretirement benefit obligations at end of year | 10,527 | 9,886 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 1,574 | 91 |
| Foreign currency exchange rate changes | 273 | (24) |
| Actual return on plan assets | 241 | 13 |
| Employer contributions | 773 | 1,498 |
| Benefits paid | (45) | (4) |
| Fair value of plan assets at end of year | 2,816 | 1,574 |

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

| | At December 31, 1999 | 1998 |
|---|---|---|
| Funded status*) | 7,711 | 8,312 |
| Unrecognized acturarial net gains (losses) | 574 | (1,015) |
| Unrecognized prior service cost | (529) | (277) |
| Net amount recognized | 7,756 | 7,020 |

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

The amount recognized in the consolidated balance sheets consists 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 plans are situated. The weighted-average assumptions used in calculating the actuarial values for the postretirement benefit plans were as follows (in %):

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Weighted-average assumptions as of December 31: | | | |
| Discount rate | 7.8 | 6.5 | 6.8 |
| Expected return on plan assets | 10.0 | 10.0 | 8.5 |
| Health care inflation rate in following (or "base") year | 5.8 | 6.0 | 6.5 |
| Ultimate health care inflation rate (2002) | 5.0 | 5.0 | 5.0 |

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

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Service cost | 209 | 189 | 164 |
| Interest cost | 702 | 646 | 592 |
| Expected return on plan assets | (169) | (6) | (5) |
| Amortization of: | | | |
| Unrecognized net actuarial losses (gains) | 10 | 14 | (1) |
| Unrecognized prior service cost | 31 | 23 | 4 |
| Unrecognized net asset | – | – | (1) |
| Other | – | – | 2 |
| Net periodic postretirement benefit cost | 783 | 866 | 755 |

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 | 121 | (99) |
| Effect on accumulated postretirements benefit obligations | 1,117 | (870) |

(in millions of €, except per share amounts)

*Prepaid Employee Benefits*
In 1996 DaimlerChrysler established a Voluntary Employees' Beneficiary Association ("VEBA") trust for payment of non-pension employee benefits. At December 31, 1999 and 1998, the VEBA had a balance of €3,231 and €1,979, respectively, of which €2,698 and €1,498, respectively, were designated and restricted for the payment of postretirement health care benefits. Contributions to the VEBA trust during the years ended December 31, 1999, 1998 and 1997 were €727, €292 and €975, respectively.

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

| | At December 31, 1999 | 1998 |
|---|---|---|
| Accrued warranty costs and price risks | 7,505 | 6,386 |
| Accrued losses on uncompleted contracts | 993 | 762 |
| Restructuring | 595 | 635 |
| Accrued personnel and social costs | 3,409 | 2,263 |
| Other | 8,864 | 6,843 |
| | 21,366 | 16,889 |

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, 1997 | 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 |
| Utilizations and transfers | (321) | 21 | (300) |
| Reductions | (15) | (9) | (24) |
| Additions | 183 | 101 | 284 |
| Balance at December 31, 1999 | 407 | 188 | 595 |

In connection with the Group's restructuring, provisions were recorded for termination benefits of €183 (1998: €259; 1997: €299), in 1999 principally within directly managed businesses and DaimlerChrysler Aerospace, in 1998 principally within the Automotive Business of the former Daimler-Benz Group and DaimlerChrysler Aerospace and in 1997 principally within the Automotive Business of the former Daimler-Benz Group. In connection with these restructuring efforts, the Group effected workforce reductions of approximately 2,400 employees (1998: 7,100; 1997: 6,600) and paid termination benefits of €239 (1998: €413; 1997: €503), of which €168 (1998: €242; 1997: €269) were charged against previously established liabilities. At December 31, 1999 the Group had liabilities for estimated future terminations for approximately 7,400 employees.

Exit costs in 1999, 1998 and 1997 primarily result from the restructuring of directly managed businesses.

## 23. FINANCIAL LIABILITIES

| | Maturities | At December 31, 1999 | 1998 |
|---|---|---|---|
| Notes/Bonds | | 7,892 | 3,207 |
| Commercial paper | | 20,879 | 11,015 |
| Liabilities to financial institutions | | 5,941 | 4,999 |
| Liabilities to affiliated companies | | 466 | 158 |
| Loans, other financial liabilities | | 257 | 319 |
| Liabilities from capital lease and residual value guarantees | | 1,286 | 777 |
| Short-term financial liabilities (due within one year) | | 36,721 | 20,475 |
| Notes/Bonds of which due in more than five years: €5,781 (1998: €2,605) | 2001–2097 | 21,440 | 14,576 |
| Liabilities to financial institutions of which due in more than five years: €2,455 (1998: €2,185) | 2001–2019 | 5,398 | 4,311 |
| Liabilities to affiliated companies of which due in more than five years: €– (1998: €28) | | 145 | 171 |
| Loans, other financial liabilities of which due in more than five years: €53 (1998: €36) | | 192 | 64 |
| Liabilities from capital lease and residual value guarantees of which due in more than five years: €258 (1998: €228) | | 592 | 833 |
| Long-term financial liabilities | | 27,767 | 19,955 |
| | | 64,488 | 40,430 |

Weighted average interest rates for notes/bonds, commercial paper and liabilities to financial institutions are 6.9%, 5.6% and 4.7%, respectively, at December 31, 1999.

Commercial paper is denominated in euros 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 €1,599 (1998: €1,526).

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

| | 2000 | 2001 | 2002 | 2003 | 2004 | thereafter |
|---|---|---|---|---|---|---|
| Financial liabilities | 36,721 | 6,617 | 6,996 | 2,750 | 2,857 | 8,547 |

At December 31, 1999, the Group had unused short-term credit lines of €12,821 (1998: €7,984) and unused long-term credit lines of €11,046 (1998: €10,903). In July 1999, DaimlerChrysler consolidated its existing credit facilities into a $17 billion revolving credit facility with a syndicate of international banks. The new credit agreement is divided into two tranches. The first tranche is a multi-currency revolving credit facility which allows DaimlerChrysler AG and several subsidiaries to borrow up to $5 billion with a maturity of 7 years at interest rates based on LIBOR. The second tranche is a revolving credit facility which allows DaimlerChrysler North America Holding Corporation, a wholly-owned subsidiary of DaimlerChrysler AG, to borrow up to $12 billion ($6 billion with a maturity of 5 years and $6 billion with a maturity of 1 year) at various interest rates. The $12 billion revolving credit facility serves as a back-up for certain commercial paper drawings.



## 24. TRADE LIABILITIES

| | At December 31, 1999 Total | Due after one year | Due after five years | At December 31, 1998 Total | Due after one year | Due after five years |
|---|---|---|---|---|---|---|
| Trade liabilities | 15,786 | 26 | 1 | 12,848 | 54 | 1 |

## 25. OTHER LIABILITIES

| | At December 31, 1999 Total | Due after one year | Due after five years | At December 31, 1998 Total | Due after one year | Due after five years |
|---|---|---|---|---|---|---|
| Liabilities to affiliated companies | 411 | 56 | 56 | 349 | – | – |
| Liabilities to related companies | 1,193 | 3 | – | 665 | 20 | 11 |
| Other liabilities | 8,682 | 229 | 9 | 8,235 | 587 | 2 |
| | 10,286 | 288 | 65 | 9,249 | 607 | 13 |

Liabilities to related companies are primarily obligations to Airbus Industrie G.I.E., Toulouse.

As of December 31, 1999, other liabilities include tax liabilities of €871 (1998: €1,025) and social benefits due of €758 (1998: €759).

## 26. DEFERRED INCOME

As of December 31, 1999, €907 of the total deferred income is to be recognized after more than one year (1998: €986).

(in millions of €, except per share amounts)

### 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, 1999 | 1998 |
|---|---|---|
| Guarantees | 3,564 | 2,449 |
| Notes payable | 33 | 103 |
| Contractual guarantees | 303 | 500 |
| Pledges of indebtedness of others | 373 | 307 |
| | 4,273 | 3,359 |

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 and certain non-incorporated companies, partnerships and project groups.

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 are 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, 1999, the remaining commitment not recorded in the financial statements aggregated approximately €342.

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

At December 31, 1999, 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 certain 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 its 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.

Total rentals under operating leases, charged as an expense in the statement of income, amounted to €964 (1998: €984; 1997: €910). Future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 1999 are as follows:

| | *Operating leases* |
|---|---|
| 2000 | **676** |
| 2001 | **452** |
| 2002 | **341** |
| 2003 | **252** |
| 2004 | **217** |
| thereafter | **904** |

## 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, equity securities, forward exchange contracts and currency options. The Group also issues financial instruments such as eurobonds, commercial paper and medium-term-notes. As a consequence of purchasing and issuing these types of financial instruments, the Group may be exposed to risks from changes in interest and currency exchange rates as well as share prices. Additionally, the Group conducts business on a global basis in numerous major international currencies and is, therefore, exposed to adverse movements in foreign currency exchange rates. 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.

(in millions of €, except per share amounts)

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

| | At December 31, 1999 | 1998 |
|---|---|---|
| Currency contracts | 28,974 | 28,204 |
| Interest rate contracts | 25,911 | 26,162 |

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 non-euro currencies in Europe). 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 rate 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, 1999 Carrying amount | Fair value | At December 31, 1998 Carrying amount | Fair value |
|---|---|---|---|---|
| Financial instruments (other than derivative instruments): | | | | |
| Assets: | | | | |
| Financial assets | 1,360 | 1,360 | 912 | 912 |
| Receivables from financial services | 38,735 | 38,835 | 26,468 | 26,460 |
| Securities | 8,969 | 8,969 | 12,160 | 12,160 |
| Cash and cash equivalents | 9,099 | 9,099 | 6,589 | 6,589 |
| Other | 133 | 133 | 261 | 261 |
| Liabilities: | | | | |
| Financial liabilities | 64,488 | 64,954 | 40,430 | 40,459 |
| Derivative instruments: | | | | |
| Assets: | | | | |
| Currency contracts | 57 | 74 | 338 | 744 |
| Interest rate contracts | 34 | 348 | 97 | 309 |
| Liabilities: | | | | |
| Currency contracts | 944 | 2,109 | 268 | 349 |
| Interest rate contracts | 61 | 590 | 19 | 303 |

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, 1999 and 1998, the Group had deferred net unrealized gains (losses) on forward currency exchange contracts and options of €(1,148) and €325, respectively, purchased against firm foreign currency denominated sales commitments extending for a period of three years.

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* – The fair values of securities in the portfolio were 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 amounts of variable rate finance receivables were estimated to approximate fair value since they are priced at current market rates. The fair values of fixed rate finance receivables were estimated by discounting expected cash flows using the current rates at which comparable loans of similar maturity would be made as of December 31, 1999 and 1998.

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* – The fair value of publicly traded debt was estimated using quoted market prices. The fair values of other long-term notes and bonds were 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 values of forward foreign exchange contracts were based on EZB reference exchange rates that consider forward premiums or discounts. Currency options were valued on the basis of quoted market prices or on estimates based on option pricing models.

**d) Accounting for and reporting of financial instruments**

The income or expense of the Group's financial instruments (other than derivative instruments), with the exception of receivables from financial services and financial liabilities related to leasing and sales financing activities, are recognized in financial income, net. Interest income on receivables from financial services and gains and losses from sales of receivables are recognized as revenues. Interest expense on financial liabilities related to leasing and sales financing activities are recognized as cost of sales.

The carrying amounts of the financial instruments (other than derivative instruments) are included in the consolidated balance sheets under their related captions.

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 financial instrument.

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. The carrying amounts of derivative instruments are included under other assets and accrued liabilities.

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

During the first quarter of 1999, DaimlerChrysler combined the activities of the Chrysler Financial Services segment and the Services segment into a new segment entitled Services. Prior periods have been reclassified to conform with the 1999 presentation. Information with respect to the Group's industry segments follows:

*Mercedes-Benz Passenger Cars & 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.

*Chrysler Group.* 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.* 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.

*Services.* The activities in this segment extend to the marketing of services related to information technology, financial services (principally retail and lease financing for vehicles and dealer financing), insurance brokerage, trading as well as telecommunications and media (in 1998 and 1997).

*Aerospace.* This division comprises the development, manufacture and sale of commercial and military aircraft and helicopters, 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 (including 50% interest in Adtranz in 1998 and 1997), automotive electronics (including microelectronics in 1997) 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, to include certain financial income, net and to include or exclude certain miscellaneous items, principally representing merger costs in 1998. Additionally, in 1999 the pre-tax gains on the sales of shares in debitel of €1,140 (see Note 9) have been included in the measurement of the Services segment operating profit since such amounts were included in the Group's measurement of the segment's performance.

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.

| | Mercedes-Benz Passenger Cars & smart | Chrysler Group | Commercial Vehicles | Services | Aero-space | Other | Elimi-nations | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| **1999** | | | | | | | | |
| Revenues | 35,592 | 63,666 | 25,480 | 10,662 | 9,144 | 5,441 | – | 149,985 |
| Intersegment sales | 2,508 | 419 | 1,215 | 2,270 | 47 | 411 | (6,870) | – |
| Total revenues | 38,100 | 64,085 | 26,695 | 12,932 | 9,191 | 5,852 | (6,870) | 149,985 |
| Operating Profit (Loss) | 2,703 | 5,051 | 1,067 | 2,039 | 730 | (399) | (179) | 11,012 |
| Identifiable segment assets | 17,611 | 49,825 | 11,549 | 77,266 | 11,934 | 65,368 | (58,886) | 174,667 |
| Capital expenditures | 2,228 | 5,224 | 770 | 324 | 336 | 589 | (1) | 9,470 |
| Depreciation and amortization | 1,580 | 3,346 | 677 | 3,348 | 290 | 275 | (187) | 9,329 |
| **1998** | | | | | | | | |
| Revenues | 30,859 | 56,350 | 22,374 | 10,371 | 8,722 | 3,106 | – | 131,782 |
| Intersegment sales | 1,728 | 62 | 788 | 1,039 | 48 | 420 | (4,085) | – |
| Total revenues | 32,587 | 56,412 | 23,162 | 11,410 | 8,770 | 3,526 | (4,085) | 131,782 |
| Operating Profit (Loss) | 1,993 | 4,255 | 946 | 985 | 623 | (130) | (79) | 8,593 |
| Identifiable segment assets | 17,098 | 38,121 | 11,936 | 49,625 | 12,970 | 33,653 | (27,254) | 136,149 |
| Capital expenditures | 1,995 | 3,920 | 832 | 285 | 326 | 797 | – | 8,155 |
| Depreciation and amortization | 1,310 | 2,837 | 692 | 2,038 | 289 | 293 | (168) | 7,291 |
| **1997** | | | | | | | | |
| Revenues | 25,874 | 52,023 | 19,481 | 8,679 | 7,751 | 3,764 | – | 117,572 |
| Intersegment sales | 1,680 | 3 | 531 | 725 | 65 | 257 | (3,261) | – |
| Total revenues | 27,554 | 52,026 | 20,012 | 9,404 | 7,816 | 4,021 | (3,261) | 117,572 |
| Operating Profit (Loss) | 1,716 | 3,412 | 342 | 777 | 284 | (214) | (87) | 6,230 |
| Identifiable segment assets | 15,003 | 38,976 | 11,000 | 41,921 | 11,174 | 23,926 | (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 | 1,627 | 306 | 324 | (170) | 6,222 |

Capital expenditures for equipment on operating leases for 1999, 1998 and 1997 for the Services segment amounted to €16,144, €7,188 and €4,861, respectively.

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Income before financial income, income taxes and extraordinary items | 9,324 | 7,330 | 5,512 |
| Not allocated: | | | |
| certain pension and postretirement benefit costs | 379 | 688 | 721 |
| miscellaneous (1998: principally merger costs) | 150 | 746 | 35 |
| Allocated: | | | |
| certain financial income, net | 19 | (171) | (38) |
| extraordinary item - gains on disposals of a business (before income taxes; see Note 9) | 1,140 | – | – |
| Consolidated operating profit | 11,012 | 8,593 | 6,230 |

(in millions of €, except per share amounts)

| Revenues | Germany | European Union*) | U.S. | Other American countries | Asia | Other countries | Consolidated |
|---|---|---|---|---|---|---|---|
| 1999 | 28,393 | 21,567 | 78,104 | 11,727 | 4,796 | 5,398 | 149,985 |
| 1998 | 24,918 | 20,072 | 65,300 | 11,519 | 4,311 | 5,662 | 131,782 |
| 1997 | 21,317 | 17,132 | 56,615 | 10,576 | 5,587 | 6,345 | 117,572 |

*) Excluding Germany.

Germany accounts for €14,711 of long-term assets (1998: €12,953; 1997: €12,040), the U.S. for €43,036 (1998: €25,344; 1997: €22,632) and other countries for €12,701 (1998: €11,309; 1997: €9,797).

### 31. EARNINGS PER SHARE

The computation of basic and diluted earnings per share for "Income before extraordinary items" is as follows (in millions of euros or millions of shares, except earnings per share):

| | Year ended December 31, 1999 | 1998 | 1997 |
|---|---|---|---|
| Income before extraordinary items | 5,106 | 4,949 | 6,547 |
| Less: preferred stock dividends | – | – | (1) |
| Income before extraordinary items - basic | 5,106 | 4,949 | 6,546 |
| Income before extraordinary items | 5,106 | 4,949 | 6,547 |
| Interest expense on convertible bonds and notes (net of tax) | 18 | 20 | 19 |
| Income before extraordinary items – diluted | 5,124 | 4,969 | 6,566 |
| | | | |
| Weighted average number of shares outstanding – basic | 1,002.9 | 959.3 | 949.3 |
| Dilutive effect of convertible bonds and notes | 10.7 | 19.8 | 12.8 |
| Shares issued on exercise of dilutive options | – | 18.3 | 17.7 |
| Shares purchased with proceeds of options | – | (11.8) | (13.5) |
| Shares applicable to convertible preferred stock | – | 0.2 | 0.8 |
| Shares contingently issuable | – | 1.3 | 1.1 |
| Weighted average number of shares outstanding – diluted | 1,013.6 | 987.1 | 968.2 |
| | | | |
| **Earnings per share before extraordinary items** | | | |
| Basic | 5.09 | 5.16 | 6.90 |
| Diluted | 5.06 | 5.04 | 6.78 |

An income tax charge of €812 relating to changes in German tax laws was included in the consolidated statement of income for the year ended December 31, 1999 and resulted in a reduction of basic and diluted earnings per share of €0.81 and €0.80, respectively (see Note 8). In 1998, merger costs of €401 (net of tax) impacted basic and diluted earnings per share by a decrease of €0.42 and €0.41. In 1997, tax benefits relating to a special distribution and to a decrease in the deferred tax asset valuation allowance of €2,490 resulted in an increase of basic and diluted earnings per share by €2.62 and €2.57, respectively.

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 shares of DaimlerChrysler Ordinary Shares as of December 31, 1997 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 period.

### 32. FORMATION OF EADS

In October 1999, DaimlerChrysler, the French Lagardère Group and the French government agreed to merge their respective aerospace and defense activities into a new company. In December 1999, Sociedad Estatal de Participaciones Industriales (SEPI) agreed to join the Franco-German alliance. The new corporation, to be called European Aeronautic, Defense and Space Company (EADS), will be established through a merger of Aerospatiale Matra S.A., DaimlerChrysler Aerospace AG and Construcciones Aeronauticas S.A. (CASA). The transaction is expected to be completed in the first half of 2000. Consummation of the merger is subject to various conditions, including among others, approval of certain governmental authorities.

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

Chairman

**Erich Klemm *)**
Sindelfingen
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 Management Representative Committee, DaimlerChrysler Group

**Rudolf Kuda *)**
Frankfurt am Main
Retired 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

**Gerd Rheude *)**
Wörth
Chairman of the Works Council, Wörth Plant, DaimlerChrysler AG
(since May 6, 1999)

**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
Chairman of the Works Council, Augsburg Plant, DaimlerChrysler Aerospace AG

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

**Bernhard Walter**
Frankfurt am Main
Chairman of the Board of Managing Directors 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:**

**Mediation Committee (Committee pursuant to § 27 Sec. 3 MitbestG (Codetermination Act))**

Hilmar Kopper (Chairman)
Erich Klemm
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

**Presidential Committee**

Hilmar Kopper (Chairman)
Erich Klemm
Dr. rer. pol. Manfred Schneider
Bernhard Wurl

**Financial Audit Committee**

Hilmar Kopper (Chairman)
Erich Klemm
Willi Böhm
Bernhard Walter

*) Employee elected representatives

**Retired from the Supervisory Board:**

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

retired April 30, 1999, deceased November 16, 1999

The Supervisory Board and the Board of Management met in four ordinary and two extraordinary meetings during the 1999 business year to discuss the state of the company, the progress of integration, the strategic development of the divisions and various other issues.

The Presidential Committee met three times in 1999 to discuss personnel issues of the Board of Management as well as other questions concerning the company's corporate governance. The Financial Audit Committee convened twice with the independent auditors to discuss in detail the financial statements for 1998 and the Half-Year Financial Statement for 1999. The committee also addressed the issue of commissioning KPMG Deutsche Treuhand-Gesellschaft AG a financial auditing firm with the final audit and determined the audit emphasis for the business year. The Mediation Committee, a body required by German industrial co-determination law, was not required to convene.

The Board of Management kept the Supervisory Board continuously informed of business developments as well as the financial state of the company and its business units through monthly reports and discussions during the various meetings. The Board of Management also reported in writing to the Supervisory Board on any extraordinary activities. In addition, the Chairman of the Supervisory Board was kept informed through numerous discussions with the Board of Management throughout the year.

Integration issues, particularly in the automotive divisions, dominated the agenda of the Supervisory Board in 1999. A further key issue was the strategic development of the other businesses of the Group. Questions relating to the product portfolio and regional strategies in the automotive business were discussed as well as the expansion of the IT-activities of the Group and the contribution of business units into powerful joint ventures like the Astrium space company.

In its February 1999 meeting, the Supervisory Board voted to increase its rights under existing corporate law by subjecting a catalogue of actions to its approval. At the meeting, the Supervisory Board also discussed and approved the medium-term corporate planning for the period 1999-2001, including planning for investment, human resources and earnings, as well as the refinancing limit of the company. The decision to acquire the remaining stake in Adtranz created the conditions necessary for implementing a comprehensive restructuring program designed to improve Adtranz' competitive position over the long term.

The March 1999 Supervisory Board meeting focused on the 1998 financial statements for the DaimlerChrysler AG legal entity and group and preparations for the Annual General Meeting. At this meeting, the Board of Management also provided the Supervisory Board with detailed information on strategic considerations for the automotive businesses.

Karl Feuerstein retired as Deputy Chairman and member of the Supervisory Board, effective April 30, 1999. As his successor and at the request of the Corporate Works Council, the Stuttgart Municipal Court named Gerd Rheude a member of the Supervisory Board of DaimlerChrysler AG, effective May 6, 1999. Feuerstein died on November 16, 1999, after a long period of serious illness. The Supervisory Board mourns the loss of Karl Feuerstein, an exceptional individual whose many years of service to DaimlerChrysler have left a lasting mark on the company.

After the Annual General Meeting on May 18, 1999, the Supervisory Board was reconstituted. Hilmar Kopper was elected Chairman of the Board and Erich Klemm was elected Deputy Chairman. At this time, the members of the Mediation Committee, the Presidential Committee and the Financial Audit Committee were also elected.

The meeting in the summer of 1999 was dominated by the strategic developments at DaimlerChrysler Aerospace AG (Dasa), particularly in terms of the consolidation and reorganization of the European aerospace industry. The meeting focused on the promotion of international mergers as a means of improving global competitiveness and accelerating the optimization of successful programs such as Airbus and the Eurofighter. Another topic at the meeting was the decision to promote the Mercedes-Benz SLR as a unique vehicle combining typical Mercedes design, pioneering innovation, safety and performance, thus underscoring the brand's premium position in the sports car segment. In addition to the successful transfer of technology and image attributes from Formula One into series production, the SLR also signifies the continuation of the Silver Arrows legend. The initial public offering of debitel and the sale of a part of the debitel shares to Swisscom AG reflected the rapid changes taking place on the international telecommunications market. The choice of Swisscom AG as a partner will guarantee further long term growth potential for this business unit.

In an extraordinary meeting on September 24, 1999, the Supervisory Board turned its attention to the new corporate structure, the allocation of responsibilities and the personnel changes at the Board of Management level. With the successful completion of the integration process, Theodor R. Cunningham, Dr. Kurt J. Lauk, Thomas T. Stallkamp and Heiner Tropitzsch stepped down from the Board of Management, effective September 30, 1999. The Supervisory Board appointed Günther Fleig as a full member of the Board of Management, responsible for the Human Resources department, and as labor relations director, effective October 1, 1999. James P. Holden was appointed Head of the Chrysler Group division, and Dr. Dieter Zetsche was named Head of the Commercial Vehicles division. The new management structure reflects the global nature of DaimlerChrysler's vehicles business and ensures a stronger focus on customers and markets.

The last Supervisory Board meeting of the 1999 business year, which took place in December, addressed medium-term corporate planning for the period 2000-2002, including planning for investment, human resources and earnings, as well as the refinancing limit for the company. The other key issue at the meeting was the consolidation of aerospace activities in the European Aeronautic Defence and Space Company.

The DaimlerChrysler financial statements for 1999 and the business review report were audited by the KPMG Deutsche Treuhand-Gesellschaft AG, Berlin and Frankfurt/Main, and certified without qualification.

The same applies to the consolidated financial statements according to US GAAP. These were supplemented by a consolidated business review report and additional notes in accordance with Article 292a of the German Commercial Code (HGB). In accordance with Article 292a, the US GAAP consolidated financial statements presented in this report grant exemption from the obligation of producing consolidated financial statements according to German law.

All financial statements and the appropriation of earnings proposed by the Board of Management as well as the auditors' reports were submitted to the Supervisory Board. These were 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 final audit and has established that there are no objections to be made.

In its meeting on February 25, 2000, the Supervisory Board approved the consolidated financial statements and the financial statements of DaimlerChrysler AG for 1999, and consented to the appropriation of earnings proposed by the Board of Management.

The Supervisory Board expresses its thanks to the DaimlerChrysler Board of Management, the company's employees, and those Board of Management members who have retired, for their tremendous individual efforts and shares their happiness on the great successes achieved in DaimlerChrysler's first full year of operation.

Stuttgart-Möhringen, February 2000

The Supervisory Board

Hilmar Kopper
Chairman

# MAJOR SUBSIDIARIES OF THE DAIMLERCHRYSLER GROUP



| | *Ownership[1] in %* | *Stockholders' Equity in Millions[2] of €* | *Revenues[3] in Millions of €* 99 | 98 | *Employment at Year-End* 99 | 98 |
|---|---|---|---|---|---|---|
| **Mercedes-Benz Passenger Cars & smart** | | | | | | |
| Micro Compact Car smart GmbH, Renningen[4] | 100.0 | (120) | 499 | 133 | 1,448 | 1,281 |
| Mercedes-Benz U.S. International, Inc., Tuscaloosa | 100.0 | * [5] | 2,281 | 1,644 | 1,780 | 1,699 |
| Mercedes-Benz India Ltd., Poona | 86.0 | 45 | 30 | 44 | 328 | 344 |
| DaimlerChrysler South Africa (Pty.) Ltd., Pretoria[4] | 100.0 | 203 | 985 | 864 | 3,503 | 3,418 |
| **Chrysler Group** | | | | | | |
| DaimlerChrysler Corporation, Auburn Hills | 100.0 | 15,551 | 67,890 | 59,003 | 129,395 | 130,329 |
| DaimlerChrysler Canada, Inc., Windsor | 100.0 | * [5] | 14,182[6] | 11,850[6] | 17,331 | 17,125 |
| Eurostar Automobilwerk GmbH & Co. KG, Graz | 100.0 | * [5] | 805[6] | 750[6] | 1,464 | 1,555 |
| DaimlerChrysler Transport, Inc., Detroit | 100.0 | * [5] | 115[6] | 94[6] | 981 | 931 |
| DaimlerChrysler de Mexico S.A. de C.V., Mexico City | 100.0 | * [5] | 6,005[6] | 5,313[6] | 11,235 | 11,125 |
| **Commercial Vehicles** Mercedes-Benz, Freightliner, Sterling, Setra, Thomas Built Buses | | | | | | |
| EvoBus GmbH, Stuttgart[4] | 100.0 | 273 | 1,887 | 1,685 | 10,337 | 9,939 |
| Mercedes-Benz Lenkungen GmbH, Mülheim/Ruhr | 100.0 | 34 | 256 | 252 | 1,387 | 1,459 |
| Mercedes-Benz España S.A., Madrid | 100.0 | 239 | 2,448 | 2,252 | 4,992 | 4,477 |
| NAW Nutzfahrzeuge AG, Arbon | 100.0 | 16 | 69 | 81 | 320 | 374 |
| Freightliner Corporation, Portland[4] | 100.0 | * [5] | 10,355 | 6,805 | 18,940 | 14,870 |
| Mercedes-Benz Mexico S.A. de C.V., Mexico-City[4] | 100.0 | * [5] | 523 | 420 | 2,683 | 2,161 |
| Mercedes-Benz do Brasil S.A., São Bernando do Campo | 100.0 | 362 | 1,427 | 2,058 | 10,677 | 11,031 |
| Mercedes-Benz Argentina, Buenes Aires[4] | 100.0 | 213 | 469 | 649 | 1,209 | 1,689 |
| Mercedes-Benz Group Indonesia, Jakarta[4] | 95.0 | 65 | 59 | 27 | 1,246 | 1,225 |
| Mercedes-Benz Türk A.S., Istanbul | 66.9 | 114 | 471 | 662 | 3,427 | 3,696 |
| **Vehicle Sales Organization** | | | | | | |
| Mercedes-Benz USA, Inc., Montvale[4] | 100.0 | * [5] | 8,607 | 6,775 | 1,457 | 1,352 |
| DaimlerChrysler France S.A.S, Rocquencourt[4] | 100.0 | * [5] | 2,577 | 2,165 | 1,751 | 1,645 |
| DaimlerChrysler Belgium S.A./N.V. Brussels | 100.0 | 69 | 948 | 831 | 554 | 524 |
| DaimlerChrysler Nederland B.V., Utrecht[4] | 100.0 | * [5] | 1,032 | 912 | 579 | 524 |
| Mercedes-Benz (United Kingdom) Ltd., Milton Keynes[4] | 100.0 | * [5] | 3,307 | 3,080 | 937 | 1,034 |
| DaimlerChrysler Danmark AS, Hillerød | 100.0 | 22 | 262 | 247 | 310 | 304 |
| DaimlerChrysler Sverige AG, Stockholm | 100.0 | 17 | 348 | 297 | 312 | 271 |
| Mercedes-Benz Italia S.p.A, Rome[4] | 100.0 | 85 | 2,293 | 2,041 | 598 | 628 |
| Mercedes-Benz (Switzerland) AG, Zurich | 100.0 | 54 | 777 | 667 | 307 | 278 |
| Mercedes-Benz Hellas S.A., Athens | 100.0 | 24 | 174 | 158 | 153 | 150 |
| DaimlerChrysler Japan Co. Ltd., Tokyo | 100.0 | 7 | 2,222 | 1,498 | 597 | 403 |
| DaimlerChrysler (Australia/Pacific) Pty. Ltd., Mulgrave/Melbourne[4] | 100.0 | 139 | 773 | 505 | 849 | 778 |

| | Ownership [1] in % | Stockholders' Equity in Millions [2] of € | Revenues [3] in Millions of € 99 | 98 | Employment at Year-End 99 | 98 |
|---|---|---|---|---|---|---|
| **Services** | | | | | | |
| DaimlerChrysler Services (debis) AG, Berlin | 100.0 | 989 | - | - | 206 | 168 |
| debis Systemhaus GmbH, Leinfelden-Echterdingen | 100.0 | 187 | 569 | 483 | 2,304 | 1,086 |
| Mercedes-Benz Finanz GmbH, Stuttgart | 100.0 | 425 | 232 | 182 | 840 | 641 |
| Mercedes-Benz Leasing GmbH, Stuttgart | 100.0 | 34 | 1,325 | 1,148 | * [7] | * [7] |
| Mercedes-Benz Credit Corporation, Norwalk | 100.0 | 930 | 1,829 | 1,544 | 818 | 716 |
| Chrysler Financial Company L.L.C., Southfield | 100.0 | 2,207 | 3,016 | 2,022 | 3,028 | 3,232 |
| Chrysler Capital Company L.L.C., Stamford | 100.0 | 599 | 243 | 183 | 47 | 47 |
| Chrysler Insurance Company, Southfield | 100.0 | 230 | 196 | 171 | 167 | 184 |
| **Aerospace** | | | | | | |
| DaimlerChrysler Aerospace AG, Munich | 100.0 | 2,147 | 2,221 | 1,772 | 12,562 | 10,994 |
| DaimlerChrysler Aerospace Airbus GmbH, Hamburg | 100.0 | 616 | 3,440 | 2,970 | 15,073 | 14,645 |
| Dornier GmbH, Friedrichshafen | 57.6 | 205 | 334 | 347 | 1,901 | 1,933 |
| Dornier Satellitensysteme GmbH, Munich | 100.0 | 17 | 673 | 683 | 1,436 | 1,507 |
| Eurocopter S.A., Marignane | 75.0 | 632 | 1,139 | 1,179 | 5,984 | 6,198 |
| Eurocopter Deutschland GmbH, Ottobrunn | 100.0 | 107 | 462 | 451 | 3,406 | 3,206 |
| MTU Motoren- und Turbinen-Union München GmbH, Munich | 100.0 | 124 | 1,340 | 1,359 | 5,201 | 5,169 |
| LFK Lenkflugkörpersysteme GmbH, Munich | 70.0 | 6 | 295 | 348 | 1,220 | 1,230 |
| Nortel Dasa Network Systems GmbH & Co. KG, Friedrichshafen | 50.0 | 95 | 528 | 351 | 1,107 | 953 |
| **Other Businesses [8])** | | | | | | |
| DaimlerChrysler Rail Systems GmbH, Berlin | 100.0 | 506 | 3,562 | 3,316 | 23,239 | 23,785 |
| TEMIC TELEFUNKEN microelectronic GmbH, Nurnberg | 100.0 | 333 | 890 | 754 | 5,173 | 4,638 |
| MTU Motoren- und Turbinen-Union Friedrichshafen GmbH, Friedrichshafen | 88.4 | 410 | 959 | 921 | 5,885 | 5,893 |
| **Regional Holding and Finance Companies** | | | | | | |
| DaimlerChrysler North America Holding Corporation, Auburn Hills | 100.0 | 19,594 | - | - | 1 | 42 |
| DaimlerChrysler Nederland Holding B.V., Utrecht | 100.0 | 101 | - | - | 0 | 1 |
| DaimlerChrysler Schweiz Holding AG, Zurich | 100.0 | 152 | - | - | 3 | 3 |
| DaimlerChrysler UK Holding plc., London | 100.0 | 276 | - | - | 7 | 7 |
| DaimlerChrysler France Holding S.A., Rocquencourt | 100.0 | 256 | - | - | 3 | 3 |
| DaimlerChrysler Coordination Center S.A/N.V., Brussels | 100.0 | 379 | - | - | 20 | 21 |
| DaimlerChrysler España Holding S.A., Madrid | 100.0 | 212 | - | - | 46 | 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 revenues of the preconsolidated financial statements.
[7]) Included in Mercedes-Benz Finanz GmbH.
[8]) Amounts according to U.S. GAAP.

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

| – in millions of € – | 95 | 96 | 97 | 98 | 99 |
|---|---|---|---|---|---|
| **From the statements of income:** | | | | | |
| Revenues | 91,040 | 101,415 | 117,572 | 131,782 | 149,985 |
| Personnel expenses | – | 21,648 | 23,370 | 25,033 | 26,940 |
| of which: wages and salaries | – | 17,143 | 18,656 | 19,982 | 21,044 |
| Research and development costs | – | 5,751 | 6,501 | 6,693 | 7,575 |
| Operating profit | – | 6,212 | 6,230 | 8,593 | 11,012 |
| Operating margin | – | 6.1% | 5.3% | 6.5% | 7.3% |
| Financial results | – | 408 | 633 | 763 | 333 |
| Income before income taxes and extraordinary items | (1,171) | 5,693 | 6,145 | 8,093 | 9,657 |
| Net operating income | – | – | 4,946 | 6,359 | 7,032 |
| Net operating income as % of net assets (RONA) | – | – | 10.9% | 12.7% | 13.2% |
| Net income (loss) | (1,476) | 4,022 | 6,547 | 4,820 | 5,746 |
| Net income (loss) per share (€) | (1.52) | 4.09 | 4.28[1] | 5.03 | 5.73 |
| Diluted net income (loss) per share (€) | (1.52) | 4.05 | 4.21[1] | 4.91 | 5.69 |
| Net income per share (excluding one-time effects) (€) | – | 4.24 | 4.28 | 5.58 | 6.21 |
| Diluted net income per share (excluding one-time effects) (€) | – | 4.20 | 4.21 | 5.45 | 6.16 |
| Cash dividend | – | – | – | 2,356 | 2,358 |
| Cash dividend per share (€) | – | – | – | 2.35 | 2.35 |
| Cash dividend including tax credit[2] per share (€) | – | – | – | 3.36 | 3.36 |
| **From the balance sheets:** | | | | | |
| Property, plant and equipment | – | 23,111 | 28,558 | 29,532 | 36,434 |
| Leased equipment | – | 7,905 | 11,092 | 14,662 | 27,249 |
| Current assets | – | 54,888 | 68,244 | 75,393 | 93,199 |
| of which: liquid assets | – | 12,851 | 17,325 | 19,073 | 18,201 |
| Total assets | 91,597 | 101,294 | 124,831 | 136,149 | 174,667 |
| Stockholders' equity | 19,488 | 22,355 | 27,960 | 30,367 | 36,060 |
| of which: capital stock | 2,525 | 2,444 | 2,391 | 2,561 | 2,565 |
| Accrued liabilities | – | 31,988 | 35,787 | 34,629 | 37,695 |
| Liabilities | – | 41,672 | 54,313 | 62,527 | 90,560 |
| of which: financial liabilities | – | 25,496 | 34,375 | 40,430 | 64,488 |
| Debt to equity ratio | – | 114% | 123% | 133% | 179% |
| Mid- and long-term provisions and liabilities | – | 36,989 | 45,953 | 47,601 | 55,291 |
| Short-term provisions and liabilities | – | 41,950 | 50,918 | 58,181 | 83,316 |
| Current ratio | – | – | 85% | 79% | 66% |
| Net assets (average of the year) | – | – | 45,252 | 50,062 | 53,174 |
| Credit rating, long-term | | | | | |
| Standard & Poor's | – | – | – | A + | A + |
| Moody's | – | – | – | A 1 | A 1 |
| **From the statements of cash flows:** | | | | | |
| Investments in property, plant and equipment | – | 6,721 | 8,051 | 8,155 | 9,470 |
| Investments in leased equipment | – | 4,891 | 7,225 | 10,245 | 19,336 |
| Depreciation on property, plant and equipment | – | 4,427 | 5,683 | 4,937 | 5,655 |
| Depreciation on leased equipment | – | 1,159 | 1,456 | 1,972 | 3,315 |
| Cash provided by operating activities | – | 9,956 | 12,337 | 16,681 | 18,023 |
| Cash used for investing activities | – | (8,745) | (14,530) | (23,445) | (32,110) |
| **From the stock exchange:** | | | | | |
| Share price at year-end Frankfurt (€) | – | – | – | 83.60 | 77.00 |
| New York (US $) | – | – | – | 96 1/16 | 78 1/4 |
| Average shares outstanding (in millions) | 982.2 | 981.6 | 949.3 | 959.3 | 1,002.9 |
| Average dilutive shares outstanding (in millions) | 1,009.2 | 994.0 | 968.2 | 987.1 | 1,013.6 |
| **Average annual number of employees** | – | 419,758 | 421,661 | 433,939 | 463,561 |

[1]) Excluding one-time positive tax effects, especially special pay-out of €10.23 per share.
[2]) For our stockholders who are taxable in Germany.

## INTERNATIONAL REPRESENTATION OFFICES

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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)

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 Official Gazette) and filed at the District Court House in Stuttgart. The financial statements may be obtained from DaimlerChrysler free of charge.

The above publications can be requested from:

DaimlerChrysler AG
D-70546 Stuttgart

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

The complete Annual Report, Form 20-F and the interim reports are available on the Internet. The most important financial charts can also be accessed. Our address is:

**www.daimlerchrysler.com**

# Brand Leaders
## DaimlerChrysler Products & Services


Mercedes-Benz S-Class

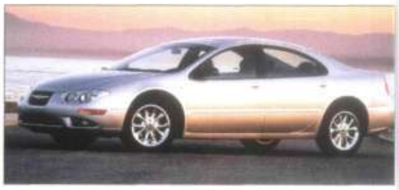

Mercedes-Benz E-Class


Mercedes-Benz A-Class


Mercedes-Benz C-Class estate


Mercedes-Benz SLK


2001 Chrysler Voyager


2000 Chrysler 300M


2000 Chrysler Sebring Convertible


2000 Dodge Dakota 4x4 Quad Cab


2000 Dodge Durango 4x4 Sport


Mercedes-Benz Actros


Freightliner Century Class


Sterling Acterra


Mercedes-Benz Unimog


Mercedes-Benz Brasil FSK 1938 S


debis: Leasing and financing consultancy


debis: Individualized customer consultation

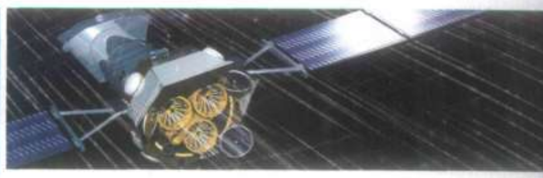
debis: Tailor-made financing solutions


debis: Salesman-on-demand

Airbus A 321


Eurocopter EC 135


Eurofighter


X-ray satellite XMM


Adtranz: ICE 2 Half-Train


Adtranz: Turbostar, UK


Adtranz: Incentro


MTU Friedrichshafen: MTU-powered ferry "Pacificat"

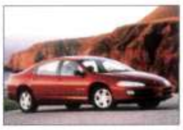

MTU Friedrichshafen: Engine 1163 for fast ferries

Mercedes-Benz CLK

Mercedes-Benz CL

smart City coupe

Mercedes-Benz M-Class



2000 Dodge Intrepid ES

2000 Dodge Neon

2000 Dodge Viper GTS

2000 Jeep Grand Cherokee Ltd.

Mercedes-Benz Sprinter


Thomas Built school bus


Mercedes-Benz Travego

Setra bus S 317

debis Headquarters on Potsdamer Platz in Berlin

debis: Operation of computer centers


debis: Customer-oriented IT-Services

Columbus Orbital Facility COF

Ariane 503

Navy drome Seamos

MTU München: Engine 3 E low-pressure turbine

MTU Friedrichshafen: High Speed Ferry "Taurus"

TEMIC: Airbag electronics

TEMIC: Production of Microelectronics


TEMIC: Automotive electronics

## Investor Relations contact

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*Auburn Hills*

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## DaimlerChrysler online

*Additional information on DaimlerChrysler is available on the Internet*

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