



DaimlerChrysler Aerospace



**Annual Report 1999**

## DaimlerChrysler Aerospace Group

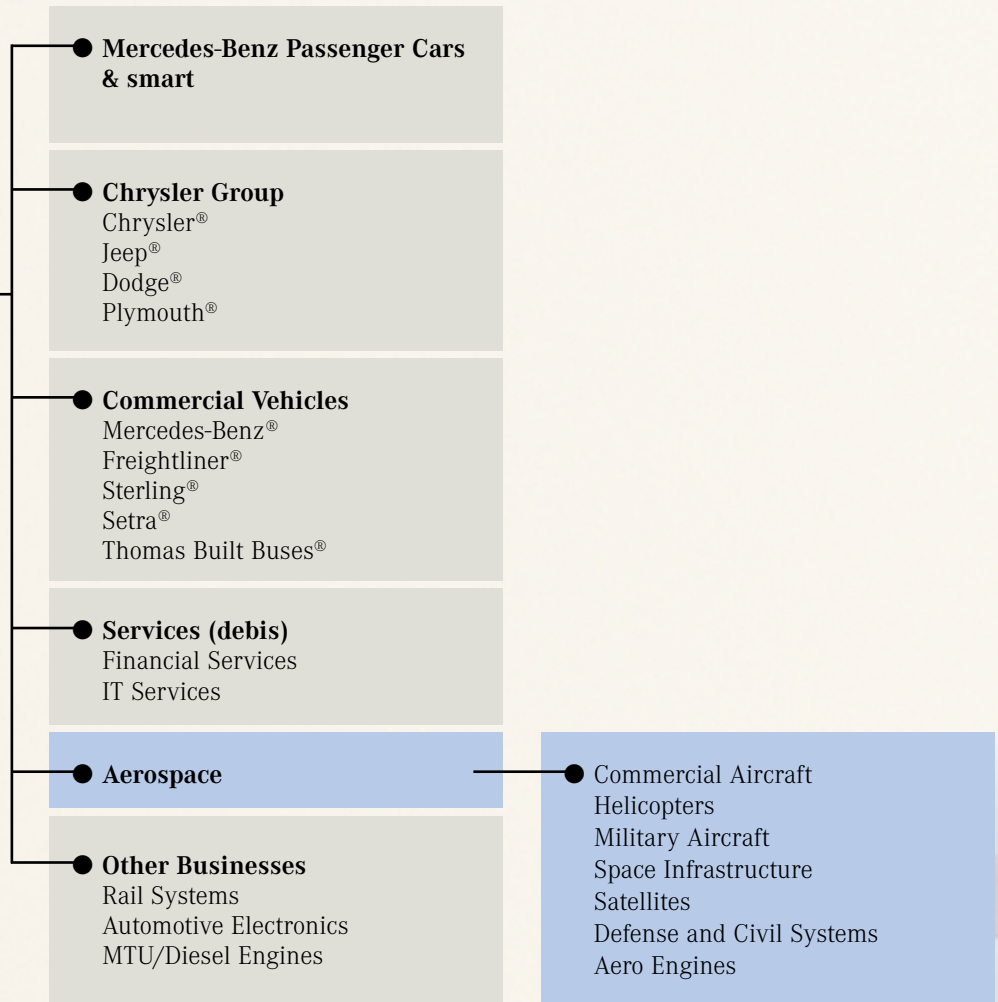
Amounts in millions

99 | 99 | 98 | 97 | 96  
 US \$ | € | € | € | €

Revenues	9,255	9,191	8,770	7,816	6,674
Germany	2,721	2,702	2,604	2,207	2,123
EU without Germany	4,643	4,611	4,126	3,806	3,064
North America	1,460	1,450	1,496	1,239	917
Other Markets	431	428	544	564	570
Research and Development	2,019	2,005	2,047	2,233	1,882
Operating Profit	735	730	623	284	25
(Contribution to the DaimlerChrysler Group)					
Net Income	60	60	547	4	615
Employees (at Year-End)		46,107	45,858	43,521	44,936
Germany		42,771	42,525	39,935	41,263
Foreign		3,336	3,333	3,586	3,673



# DAIMLERCHRYSLER



## MILESTONES 1999

**JANUARY.** Foundation of Airbus Military Company by seven European nations for the development and production of the European military transporter A400M.

**MARCH.** 40,000th earth orbit by ERS-1, thus exceeding the original lifetime of ERS-1 by three times. Delivery start: hand-over of the first EC 155 to the Federal Border Guard.

**APRIL.** 1,000th aircraft of the A320 family is taken over by Air France. Program launch for A318, the smallest Airbus. The U.S.-German experimental aircraft X-31 is started for the new vector technology program. Delivery of the first Tornado reconnaissance pod from series production.

**MAY.** 2,000th Airbus is taken over by Deutsche Lufthansa AG, the airline with the largest Airbus fleet to date, as the 150th Airbus aircraft. May 18, 30 years ago: a Franco-German government agreement creates the basis for starting the Airbus program. 1,000th test flight of a Eurofighter prototype.

**JUNE.** Maiden flight of BK 117 C-2. Eurocopter delivers the 100th EC 135 and the 500th Super Puma/Cougar. Sealing of the series production contract for the Franco-German military helicopter Tiger.

**AUGUST.** Nortel Dasa is involved in a large order for development of a digital mobile radio communication network for Deutsche Bahn AG.

**OCTOBER.** October 14: Signing of the contract on the merger of Dasa and Aerospatiale Matra and formation of EADS. October 15: Agreement on the foundation of the Franco-UK-German space technology joint venture called Astrium.

Successful first flight of MAW Taurus missile. Agreement on the formation of a three-nation company for the development of the European satellite navigation system Galileo signed.

**DECEMBER.** December 2: The Spanish CASA becomes a foundation member of EADS. ESA's X-ray satellite XMM, built under the lead of Dasa, is launched into orbit by the first commercial flight of Ariane 5.

## COMMERCIAL AIRCRAFT

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	3,363	3,340	2,962
Incoming Orders	4,134	4,105	5,179
R&D Expenses	267	265	240
Employees (Dec. 31)		16,754	16,195

## SATELLITES

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	461	458	645
Incoming Orders	527	523	609
R&D Expenses	430	427	532
Employees (Dec. 31)		1,455	1,652

## HELICOPTERS\*

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	710	705	680
Incoming Orders	1,275	1,266	744
R&D Expenses	131	130	122
Employees (Dec. 31)		4,052	4,065

\* According to our stake in Eurocopter consolidated at 40%.

## DEFENSE AND CIVIL SYSTEMS

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	1,736	1,724	1,729
Incoming Orders	1,566	1,555	2,059
R&D Expenses	495	492	460
Employees (Dec. 31)		8,266	9,109

## MILITARY AIRCRAFT

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	1,085	1,077	957
Incoming Orders	833	827	2,702
R&D Expenses	227	225	217
Employees (Dec. 31)		6,308	5,913

## AERO ENGINES

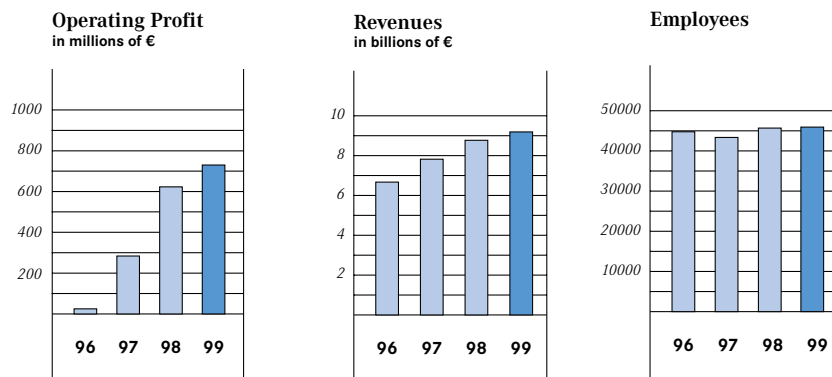
	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	1,754	1,742	1,660
Incoming Orders	1,559	1,548	2,594
R&D Expenses	138	137	153
Employees (Dec. 31)		6,875	6,633

## SPACE INFRASTRUCTURE

	99   Mio. \$	99   Mio. €	98   Mio. €
Revenues	596	592	582
Incoming Orders	384	381	532
R&D Expenses	310	308	321
Employees (Dec. 31)		2,098	1,990

*DaimlerChrysler Aerospace is engaged in the fields of aeronautics, astronautics, defense and civil systems as well as propulsion systems. In these various disciplines, future technologies are being developed in order to master the challenges of the 21st century and to remain competitive on the global market tomorrow as well as today. The key to achieving this is commitment and the realization of integral solutions for humanity and its environment, is the capability to cooperate in worldwide partnerships, is the creative ability to transform ideas and technical possibilities into market-oriented products, and finally, is the resolution to think not only for today but above all for tomorrow.*

## New Values by European Dimensions



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L E T T E R   F R O M   T H E   P R E S I D E N T  
A N D   C H I E F   E X E C U T I V E   O F F I C E R

2 LETTER FROM THE PRESIDENT

DaimlerChrysler Aerospace, its employees and its shareholders can be proud of what has been achieved during the 10-year history of the company. 1999 was a further highly successful year underlining Dasa's position as one of the world's most successful aerospace companies. In a generally favorable economic atmosphere, Dasa was again able to surpass the peak figures of the previous year with respect to revenues and operating profit. The volume of incoming orders laid well above revenues despite the pressures of increasing competition.

The market success of the Airbus family has played a vital role in this success. 476 confirmed orders meant that, for the first time, we were able to meet and indeed exceed our goal of a 50% share of the world market. A total of 294 aircraft were delivered and the new models A318 and A340-500/-600 have considerably improved our market position. Preliminary work on the new mega-airliner A3XX was continued with vigor during 1999. To cope with our extensive order backlog and meet the changing needs of the market, we also continue to increase production capacity.

In the helicopter sector, we have been able to further strengthen our position in the civil and military markets, which have shown recovery. The order for the first series production batch of the Franco-German Tiger combat helicopter was a particular highlight in the year 1999.

In the Military Aircraft business unit, the positive development of the past few years continued in 1999. Series production build-up and flight testing of Eurofighter are on schedule. Important milestones have also been reached in the campaigns to export Eurofighter to Greece and Norway.

Our space activities reached a new climax in December 1999 with the first commercial launch of the European launcher Ariane 5, which successfully transported the scientific X-ray satellite XMM into space. We have also taken an important step in the space field as far as corporate policy is concerned. The agreement on the formation of the trilateral space company Astrium has put European cooperation in the space industry on a globally competitive footing.

Growth at our engine subsidiary MTU München was founded particularly on extensive growth in the maintenance business, which we intend to further develop as part of an ambitious



**DR. RER. POL.  
MANFRED BISCHOFF**

*President and Chief  
Executive Officer  
(until March 15, 2000)*



**DR.-ING.  
GUSTAV HUMBERT**

*Commercial Aircraft,  
Member of the  
Board of Management*



**WERNER  
HEINZMANN**

*Defense and Civil Systems  
Member of the  
Board of Management*



**DR. JUR.  
HARTWIG KNITTER**

*Human Resources,  
Member of the  
Board of Management*



expansion strategy with joint ventures the world over. The focus of development was the PW6000 engine for the new Airbus A318.

In the defense sector, where further cuts in the federal budget could not be offset by increased export activity, the necessary structural changes have been begun following the concentration process which has taken place over the past years. Nevertheless, the defense sector is well equipped to face the future with such modern products as the standoff missile Taurus and the reconnaissance, command and communication systems successfully deployed in Kosovo. Nortel Dasa, active in the civil telecommunication systems sector, was able to report double digit growth rates.

The past business year was not only financially but also strategically the most successful in the history of DaimlerChrysler Aerospace. 1999 was the year which saw the company advance well into the age of European industrial structures, a development that is being clearly felt in all areas

of business. With our long-standing partners Aerospatiale Matra from France and CASA from Spain we have agreed to form the European Aeronautic Defence and Space Company, EADS. In doing so, we are setting up the first leading transnational aerospace company in Europe and the world's third largest company in our sector. We have thus laid the foundations for a successful future in the globally competitive world of the 21st century.

Dasa's financial strength and the strategic far-sightedness of our parent company DaimlerChrysler AG have enabled us to play such a decisive role in European restructuring and thus to consistently pursue our strategic goals. The successful corporate policy followed in the past years has given our company a solid base on which to build new European structures and create further profitable growth.

Munich, February 2000

Dr. Manfred Bischoff



**DR. RER. POL  
KLAUS ENSSLIN**

*Satellites*



**RAINER  
HERTRICH**

*Aero Engines  
(until March 31, 2000)*

*President and Chief  
Executive Officer  
(from March 15, 2000)*



**JOSEF  
KIND**

*Space Infrastructure*



**ALOYSIUS  
RAUEN**

*Military Aircraft  
(until Dec. 31, 1999)*



**DR.-ING.  
KARL-HEINZ HARTMANN**

*Military Aircraft  
(since Feb. 1, 2000)*

## Profitability improved

- ◆ Operating profit reached a new record level of €730 (1998: €623) million
- ◆ Revenues increased by 5% to €9.2 billion
- ◆ Airbus deliveries rose by 28% to 294 aircraft
- ◆ With €9.9 (1998: €13.9) billion, incoming orders once again reached a high level

**OPERATING PROFIT FURTHER IMPROVED.** Compared with the excellent result for the previous year, the operating profit rose by €107 million to €730 million. Continued improvement in efficiency in the past played a decisive role in this positive development. Higher business volumes for commercial aircraft and the continually rising exchange rate of the US dollar as against the Euro also had a favorable effect.

This excellent result was achieved despite new strain on Defense and Civil Systems which resulted from economies in the German defense budget. In this context, structural provisions amounting to €34 million were made which are included in the result.

**REVENUES INCREASED BY €421 MILLION.** We were able to increase revenues by 5% to €9.2 billion in 1999. This increase was driven by substantial successes in the Commercial Aircraft business unit. Particularly Airbus deliveries, which rose by 28% to 294 aircraft, as well as the favorable rate of the US dollar had a positive effect. The Military Aircraft business unit also made a gratifying contribution to growth. The other business units all registered slight upward growth, with the exception of Satellites, where there was a decline in revenues due to the changed order structures which call for a lower share of subcontractor services.

**RECORD LEVELS OF 1998 FOLLOWED BY FEWER INCOMING ORDERS.** With a value of €9.9 (1998: €13.9) billion, incoming orders once again reached an unexpected high level although it remained below the record of the previous year that was characterized by orders for Eurofighter and Airbus aircraft. Budgetary constraints delayed government agencies from placing firm orders and this was the main reason for a reduced volume of orders in the Defense and Civil Systems business unit. The order for the first volume batch of Tiger military helicopters impacted on incoming orders in the Helicopter business unit with double-digit growth.

### INVESTMENT AND R&D EXPENDITURE AT A HIGH LEVEL.

Investment in capital assets increased in 1999 to €336 (1998: €326) million. Focus remained on the expansion of production capacity in the Airbus program. Expenditure on research and development (R&D) reached previous year's level of € 2.0 billion. R&D expenditure channeled into projects that we carry out for third parties decreased by 8% to €1.5 (1998: €1.7) billion due to lower incoming orders in the Satellite business unit while R&D expenditure financed out of our resources increased by 25% to €458 (1998: €367) million. The Airbus program as well as the military aircraft sector registered an above-average growth.

### EADS AND ASTRIUM CREATE A COMPETITIVE STRUCTURE FOR THE EUROPEAN AEROSPACE INDUSTRY IN THE INTERNATIONAL ARENA.

On 14 October we joined with our French partners in signing the contract regulating the merger of Dasa and Aerospatiale-Matra to form the European Aeronautic Defence and Space Company (EADS), the third-largest aerospace company worldwide. Negotiations on our Spanish partner CASA joining EADS were successfully concluded in December 1999. This means that we have achieved our most important goal in the year under review - the creation of a viable bedrock for the future of the European aerospace industry. EADS has excellent growth and profit prospects which the new joint venture will exploit.

The contractual agreement regulating the consolidation of the space activities of Dasa and Matra Marconi Space (MMS) to form Astrium, the largest space company in Europe, was another groundbreaking step for the future.

**POSITIVE RESULT IN COMMERCIAL AIRCRAFT.** Airbus deliveries rose considerably and as a consequence revenues in the Commercial Aircraft business unit rose by 13%. Incoming orders fell back cyclically after a run of record years. However, the significant increase in the Airbus market share of purchase orders once again generated a high level of incoming



Revenues Amounts in millions	99	99	98
	US \$	€	€
DaimlerChrysler Aerospace	9,255	9,191	8,770
Commercial Aircraft	3,363	3,340	2,962
Helicopters <sup>1)</sup>	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

1) According to our stake in Eurocopter consolidated at 40%.

Incoming Orders Amounts in millions	99	99	98
	US \$	€	€
DaimlerChrysler Aerospace	9,955	9,886	13,866
Commercial Aircraft	4,134	4,105	5,179
Helicopters <sup>1)</sup>	1,275	1,266	744
Military Aircraft	833	827	2,702
Space Infrastructure	384	381	532
Satellites	527	523	609
Defense and Civil Systems	1,566	1,555	2,059
Aero Engines	1,559	1,548	2,594

1) According to our stake in Eurocopter consolidated at 40%.

orders for 1999 at €4.1 (1998: €5.2) billion. The order backlog of 1,445 (1998: 1,309) aircraft gave the Airbus Consortium the parameters for gradually increasing production capacity by 23% to 355 aircraft a year until 2002.

**HELICOPTERS IN ESTABLISHED MARKET POSITION.** The Eurocopter Group was able to further extend its market leadership. Revenues increased by 4% to €705 (1998: €680) million in accordance with our stake of 40%. The contract governing the first volume batch in the Tiger program increased incoming orders by 70%.

**MILITARY AIRCRAFT ON AN UPWARD TREND.** The programs Eurofighter and Tornado were the main performers when it came to revenues in the Military Aircraft business unit. An order for upgrading the Greek fleet of Phantom aircraft was booked in 1998 and production of Airbus components increased in the year under review. These two factors played a significant part in fuelling growth and revenues rose overall by 13% to €1.1 (1998: €1.0) billion. Following on from the big orders booked in 1998, incoming orders were substantially lower in 1999 at €0.8 (1998: €2.7) billion, as was to be expected.

**SPACE INFRASTRUCTURE AND SATELLITES ON A SOLID FOUNDATION.** Revenues rose by 2% to reach €592 (1998: €582) million in the Space Infrastructure business unit. The commercial success of the European launcher Ariane and our substantial involvement in the Columbus space lab were the main factors in driving up revenues. Incoming orders considerably dropped below previous year's figures due to postponement in orders.

A significant drop in the share of subcontractor services in overall performance was a key factor in the sharp decline in revenues experienced by the Satellites business unit. They went down by 29% to €458 million. This trend was also responsible for the 14% drop in incoming orders. Utilization of capacity in the business unit was well throughout the year.

In preparation of the foundation of the Astrium Group the business activities of the two business units will be contributed to Astrium Deutschland GmbH with retroactive effect from 1 January 2000. This new enterprise will join forces with Astrium UK and Astrium France to form the future Astrium Group.

**FOCUSING DEFENSE ENGINEERING ON CORE BUSINESS.** Strategic reorientation of the Defense and Civil Systems business unit once again led to parts of the business, such as Elektluft GmbH, being sold in 1999. Even so, revenues reached previous year's level of €1.7 billion. Calculated on a comparative basis revenues increased by 10%. Incoming orders in the year under review were 24% lower than in 1998. Aside from the structural changes, this development mainly reflected a new round of cuts in government budgets.

**NEW COOPERATIVE VENTURES IN THE AERO ENGINE BUSINESS.** The ongoing increase in maintenance business and the favorable rate of the US dollar have driven up revenues in the Aero Engine business unit by 5% to €1.74 (1998: €1.66) billion. Following on from two big orders booked in 1998, the 1999 incoming orders at €1.5 (1998: €2.6) billion was in line with our expectations. With new joint ventures we expand our international presence and product range in engine maintenance.

**CREATION OF AROUND 1,000 NEW JOBS.** 1999 saw an increase in human resources on the basis of full order books in aircraft and engine construction. At the end of 1999 the number of employees had increased to 46,107 (1998: 45,858). Defense and Civil Systems were particularly affected by structural changes and once these adjustments are taken into account we took on around 1,000 additional employees.

## Consolidation to form EADS

- ◆ EADS - the future is a European one
- ◆ Further increase in revenues to be expected
- ◆ Incoming orders to once again reach a high level above revenues
- ◆ Restructuring program adjusts capacities in defense engineering until 2002
- ◆ More than €2 billion a year to be invested in research and development until 2002

**ESTABLISHMENT AND FLOATATION OF EADS.** Together with our European partners, we agreed in the fourth quarter of 1999 to merge the business activities of Dasa, Aerospatiale Matra and Construcciones Aeronauticas (Casa). The new company will operate under the name of European Aeronautic Defence and Space Company (EADS).

The activities of DaimlerChrysler Aerospace AG and its subsidiaries will be contributed to the new company EADS, with the exception of MTU Munich, its subsidiaries and Temic. The new company will start operation in summer 2000 after completion of public approval procedures, approval by the respective supervisory bodies and after the necessary legal and capital arrangements have been made.

We will sell a considerable number of EADS shares, i.e. 34.43%, on the stock market. To ensure continuity and to consolidate initial commitment, the remaining 65.57% of the shares will be held by a holding company. DaimlerChrysler and a French holding company pooling the shares of the French state (50%), Lagadère (37%) and French private institutions (13%) will have equal shares in EADS (45.75%) in the holding company. The remaining 8.5% will be held by SEPI, a holding company owned by the Spanish state. This structure will make DaimlerChrysler the largest partner in EADS with a share of about 30%.

The new company will be a joint-stock company under Dutch law. Operative business will be managed from dual headquarters in Paris and Munich (Ottobrunn). EADS will consist of five business units: Airbus, Military Transport Aircraft, Aeronautics, Space Systems and Defence & Civil Systems. The business structure of EADS will be complemented by the three central functions Strategy, Finance/Controlling and Marketing.

**EADS PROSPECTS.** As Europe's largest and the world's third-largest company EADS will become an efficient aerospace company and an international benchmark. Cross-border integration of business segments will join forces and thus open up considerable synergies that will generate additional profitable growth. The current structure and efficiency of Dasa will provide an excellent basis.

**EUROPEAN SPACE COMPANY ASTRIUM.** After approval by the EU cartel authorities and the respective supervisory bodies, we will establish the Astrium Group in the first half of 2000. With a workforce of more than 8,000 and revenues of €2.25 billion, Astrium will be the largest space company in Europe and thus one of the leading companies in this sector worldwide. Astrium will be active in the fields of Earth observation, telecommunications, science, launcher systems and space infrastructure.

**ENVIRONMENT WILL CHANGE.** According to actual economic forecasts, air traffic volume will continue to grow. This increase in air traffic volume can only be handled by a growing number of aircraft. Many airlines have already met this trend by placing extensive orders. Thus the extremely high order volume of the past years cannot be achieved any more. So pressure on prices will continue to increase. In the helicopter market, restrained growth in the civil sector is compensated by increased demand for military helicopters worldwide. The European military aircraft industry benefits from the start of the Eurofighter series production and the unabated demand for the upgrade of older types of aircraft.

In the Space sector, reduced public budgets are to be expected for scientific and Earth observation satellites. A stable development, however, is expected in the other sectors. Although commercial satellite business will benefit from new business opportunities due to the beginning globalization in this market, pricing and eliminatory competition will increase at the same time. New cuts in public defense spending require new structural measures and job reductions in the defense industry.

We expect a decline in new business in the engine sector which, however, will be compensated by further growth in engine maintenance due to the growing fleets of aircraft.

**FURTHER PROFITABLE GROWTH TO BE EXPECTED.** Disregarding EADS establishment, Dasa expects a further increase in revenues for the year 2000 which will be mainly achieved through increased deliveries in the Commercial Aircraft sector. The Helicopter business unit is also expected to increase revenues through the extension of its market position. We also wish to open up growth potentials in the Military Aircraft sector through the series production of the Eurofighter and additional maintenance business in Central and Eastern Europe. Increased settlement of Eurofighter engine accounts, a growing market volume for support services and broadening of the product range in the maintenance sector are expected to also open up growth opportunities to the engine business.

In the Satellite and Defense and Civil Systems business units, we expect declining revenues in the year 2000 which will be due to changed order structures and lower public spending. Already contracted and new orders as well as intensified export activities will help to increase revenues in the years to come. Following on increased revenues in the year 2000, we expect declining revenues in the Space Infrastructure business unit, which will be due to the decreasing market potential.

Sustained strong competition and associated pricing pressure require further cost optimization in all the sectors. We will thus continue already initiated programs and establish appropriate programs in the future to secure and improve the profitability of the company. In addition, new cuts in defense budget will force us to adjust capacities in the Defense and Civil Systems business unit. A restructuring program has been initiated to abolish gradually several hundred jobs until 2002.

We are confident that the result achieved in the year 2000 will reach a similarly high level as in 1999. In order to be able to achieve this success, it is, however, indispensable that the economic conditions are within the calculated limits.

**INCOMING ORDERS ONCE AGAIN HIGHER THAN REVENUES IN THE YEAR 2000.** The increase in incoming orders to be expected for the year 2000 will be substantially characterized by the orders for logistic support within the Eurofighter program secured by the Military Aircraft business unit as well as by the series-production order for the military transport helicopter NH90 in the Helicopter sector. In the Aero Engine business unit, incoming orders will rise due to increased demand for maintenance. Postponement in orders from 1999 will help the Space Infrastructure business unit to exceed last year's low incoming orders in 2000. The Defense and Civil Systems business unit will almost reach previous year's very low level of incoming orders despite the planned cuts in the German budget.

**Airbus aircraft**  
as of December 31, 1999

	Orders	Deliveries	Order backlog	Aircraft in service
A 300	520	489	31	431
A 310	260	255	5	249
A300/310	780	744	36	680
A 318	120	-	120	-
A 319	583	206	377	206
A 320	1,287	792	495	786
A 321	312	144	168	144
A 318/319/320/321	2,302	1,142	1,160	1,136
A 330-200/-300	264	131	133	131
A340	287	171	116	170
A 330/340	551	302	249	301
<b>Total</b>	<b>3,633</b>	<b>2,188</b>	<b>1,445</b>	<b>2,117</b>

After the flood of new orders secured in the previous years, fewer orders for commercial aircraft will be placed this year. In this context, a well-filled backlog of orders for 1,445 aircraft must be taken into account. As far as the Satellite business unit is concerned, we expect that, as in the case of commercial aircraft, the change in order structure and associated decline in order volume will be neutral in effect on capacity utilization.

**FUTURE SECURITY TO RANK HIGH.** From 2000 to 2002, we plan to spend more than €2 billion per year on research and development. More than €1.6 billion a year will be channeled into projects carried out on behalf of third parties particularly by the Defense and Civil Systems, Space Infrastructure and Satellite business units. Research and development spending financed out of our resources is planned to amount to more than €400 million a year. Almost 50% of this sum will be spent on the development of new Airbus aircraft with main focus on A3XX development. Investment in capital assets will amount to about €1.5 billion in the planning period. This sum will be mainly used for extension investment in the Airbus program.

# Commercial Aircraft Deliveries on the Upswing

*The decision was taken in early 1999:  
the flight above the clouds shall become  
a reality for the youngest and smallest  
member of the Airbus family – the A318  
in late 2001.*





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**Increased deliveries of 294 (1998: 229) aircraft pushed up revenues substantially by 13% in 1999. In line with expectations, three record years were followed by a reduced number of orders for commercial aircraft, but Airbus nevertheless succeeded in bumping up its market share to 55% (1998: 46%). The high level of incoming orders meant that production rates could again be stepped up.**



**COMMERCIAL AIRCRAFT BUSINESS UNIT.** The core business of DaimlerChrysler Aerospace Airbus GmbH and its facilities and subsidiaries at sites in Hamburg, Bremen, Buxtehude, Dresden, Laupheim, Nordenham, Stade and Varel is the development and production of medium and large transport and commercial airliners.

DaimlerChrysler Aerospace Airbus GmbH is one of the two main partners in the Airbus Industrie GIE consortium with a stake of 37.9%. The Airbus program accounts for more than 90% of business volume and is the main focus of this business unit. Aircraft conversions and a range of civil and defense programs account for the remaining 10%.

The plant in Hamburg has a key role in the Commercial Aircraft business unit. The A321 and A319 Airbus models are assembled at this plant and operations will be expanded to include final assembly of the new A318. Moreover, the Airspares facility in Hamburg is the central spare parts store supplying spares for all Airbus models worldwide.

**DELIVERIES STEPPED UP.** Revenues in the Commercial Aircraft business unit experienced another steep rise during 1999, increasing by 13% to €3.3 (1998: €3.0) billion. The strong growth in revenues was primarily attributable to significantly higher deliveries: the year under review saw 294 (1998: 229) aircraft delivered by Airbus Industrie to customers. This is 28% up on 1998 and it means that 32% of all commercial airliners supplied worldwide were Airbus models. At the end of 1999 a total of 2,117 Airbus airliners were in worldwide service with 178 airline companies.

The Dresden plant specializes in converting used Airbus passenger jets to freighters. This year the plant delivered its 25th converted A300B4 freighter to the customer.

Airbus Industrie has already delivered 2,188 aircraft worldwide, including Typ A330 aircraft (Photo left). An additional 1,445 aircraft were ordered by the end of 1999. In its basic version, the A3XX will seat up to 555 passengers on routes of up to 14,200 km (7,700 km) (photo right)



We delivered 13 converted freighters during the 1999 business year to bring the total number of freighters delivered to customers up to 68. Contracts for an additional 2 conversions were also concluded in 1999.

The increased production rate resulted in a requirement for a fifth A300-600ST Beluga transport aircraft and we were able to deliver the fuselage on schedule. This widebody transporter is produced by SATIC, a joint venture with our Airbus partner Aerospatiale Matra.

**INCOMING ORDERS CONTINUE AT A HIGH LEVEL.** Like revenues also order books contributed to a very positive picture, with incoming orders once again attaining a high level at €4.1 (1998: 5.2) billion. After high order levels in previous years we originally anticipated a significant drop in purchase orders for aircraft. However, Airbus booked 476 (1998: 556) firm orders for Airbus models in 1999. These orders included 408 (1998: 437) airliners in the A318/A319/A320/A321 family and 68 (1998: 87) airliners from the A330/A340 program. The figures include 120 orders for the A318 and

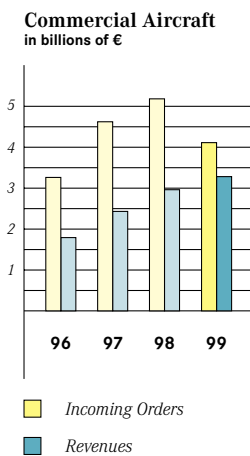
11 orders for the A340-500/600, currently still under development. The Airbus market share of firm orders for airliners in the 100-plus seat category increased from 46 to 55%.

The current order backlog of the Airbus consortium now stands at 1,445 (1998: 1,309) with a value of €13.4 billion. This ensures that production facilities will be operating at full capacity over the years to come.

The very favorable overall market position of the Airbus program is primarily due to the modular principle of commonality within the A318/A319/A320/A321 single-aisle family and the A330/A340 long-range family. This principle is instrumental in permitting operators to use basically identical control and maintenance systems. Flight and maintenance personnel are interchangeable and operators can adopt a more flexible approach to deploying the aircraft. This versatility is an extremely potent competitive advantage in the international marketplace for airliners.

**ANOTHER INCREASE IN PRODUCTION RATES.** The extremely high level of incoming orders, full order books and the expectation that orders will continue at a good level have encouraged the Airbus consortium to dedicate resources towards further expansion of production capacity for the A318/A319/A320/A321 single-aisle program. In 2002 it will be possible to build up to 24 aircraft a month in the program. This means that up to 275 of these aircraft can be produced and delivered to the customer each year. Overall, our commitment is to produce 355 aircraft of all Airbus models in 2002. This is equivalent to a growth rate of 23% by comparison with 1999. As a result of this development we expanded our labor force moderately by 559 during the year under review.

**RESEARCH AND DEVELOPMENT EXPENDITURE AT THE FOREFRONT OF OUR MAJOR PROJECTS.** We spent €265 (1998: 240) million on research and development in 1999. This included €41 (1998: 82) million on projects carried out for third parties. The self-funded R&D effort rose by 42% to €224 (1998: 158) million. Our development program focused on the new A340-500/600 Airbus versions and the A318 as well as the preparatory work for the A3XX and the A400M.





Besides these new programs a further initiative was launched as part of the Electronic Flight Control System (EFCS) program. The maiden flight of a VFW 614 technology demonstrator took off on 13 August 1999. This technology program is directed towards developing and testing innovative technologies for the deployment of various new systems in future Airbus aircraft. The aim is to maintain a substantial capability within the German aviation industry for developing and expanding our commitment to high-tech solutions.

**AIRBUS FAMILY IS EXTENDED.** The Airbus consortium decided to go ahead with construction of the A318 in response to the big demand for such an aircraft. This aircraft is derived from the A319 but is 4.5 frames shorter. It rounds off the lower end of the Airbus program and allows airline companies to convey 107 passengers in two class categories. The maiden flight is scheduled for the close of 2001 and the first delivery to a customer is planned for the last quarter of 2002.

We have also been continuing with planned development and design work on the four-engine A340-500 and A340-600 long-haul versions. The A340-500 will offer space for 313 passengers in three class categories and can operate over a range of 15,750 km (8,500 nm). The A340-600 can accommodate 380 passengers in the three-class configuration and will have a range of 13,900 km (7,500 nm). We have made a timely start in Hamburg on fitting out the front fuselage section for the first A340-600 prototype and we aim to start final assembly in April 2000. The maiden flight has been planned for January 2001 and the first deliveries are scheduled for 2002.

**PREPARATORY WORK ON MAJOR PROJECTS AIRBUS A3XX**

**AND A400 M.** In order to respond appropriately to the growth in future air traffic, the Airbus partners intend to develop a widebody aircraft. The basic version of the A3XX will have 555 seats and a range of around 14,200 km (7,700 nm). With the A3XX, Airbus is able for the first time to offer airlines a complete aircraft family. Our objective is to use the A3XX as a vehicle for direct access to the particularly attractive top segment of the market and establish the Airbus market share at 50% over the long term. The launch for the A3XX program is planned for the end of 2000 with the A3XX entering into service in 2005.

The A400M military transporter is another large-scale project. In January 1999, we joined forces with Airbus Industrie, Aerospatiale Matra, British Aerospace, Casa, Finmeccanica (Italy), Flabel (Belgium) and Tusas (Turkey) to establish the Airbus Military Company in order to develop this aircraft. The A400M is intended to replace the Transall C160 and the Hercules C130 that have now been in operation for decades. The requirement for the A400M is estimated at 288 transporters in the seven participating countries, Germany, France, Great Britain, Spain, Italy, Belgium and Turkey. The aircraft is a four-engine turboprop and will be capable of carrying a payload weighing 20 metric tons over a range of 7,200 km. With the A400M, Airbus will for the first time offer a military sector on the aircraft market, hence additionally enhancing its competitiveness versus Boeing.



# Helicopters

## Tiger Series Production approved

*Following the launch of the series production  
of the French-German military helicopter Tiger,  
delivery will start in 2002.*





Amounts in millions *	99 US\$	99 €	98 €
Revenues	710	705	680
Incoming Orders	1,275	1,266	744
R&D Expenses	131	130	122
Employees (Dec. 31)		4,052	4,065

\* According to our stake in Eurocopter, consolidated at 40%.

**In 1999 we increased revenues to €705 million, in a gently growing commercial market. A major contract for the Franco-German Tiger military helicopter took incoming orders to a record level of €1.3 billion.**

**MARKET POSITION EXPANDED.** Eurocopter develops and builds a broad range of helicopters catering for around 85% of market requirements. Activities are focused at four sites – Ottobrunn and Donauwörth in Germany and La Courneuve and Marignane in France. The market for civil helicopters increased by about 5%, and the Eurocopter Group forged ahead and increased its market share from 39% to 45%.

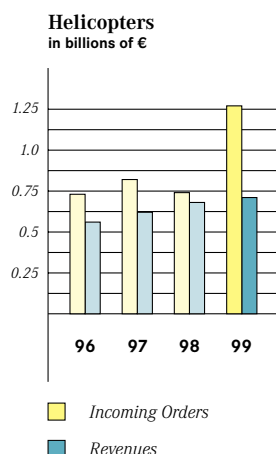
**REVENUES AND INCOMING ORDERS ON THE UPSWING.** The business unit Helicopters increased revenues by 4% to €705 (1998: 680) million and in line with the stake held by Dasa they comprise 40% of revenues for the Eurocopter Group. The military share of revenues increased to 51% (1998: 47%). Concluding the contract for the first batch of the Franco-German Tiger military helicopter increased incoming orders by an impressive 70% to €1.3 billion (1998: 744 million). Expenditure on R&D increased by 7% to €130 (1998:

122) million, particularly as a result of high outgoings for the military programs that we are carrying out on behalf of third parties.

**NEW PRODUCTS FOR THE COMMERCIAL MARKET.** The latest member to join the Eurocopter family is the EC120 Colibri, a single-engine light civil helicopter. This helicopter is a five-seater and is suitable for pilot training and rescue and surveillance missions. Official measurements by the ICAO (International Civil Aviation Organization) confirm that the EC120 Colibri is the quietest helicopter in its class. Eurocopter has again succeeded in setting new standards for flight characteristics, price and design with another new and extremely successful model: the EC135 light civil helicopter. A mere 18 months after production was started up more than 100 helicopters have been delivered to customers throughout the world. The Super Puma, a helicopter in the 10-ton-class, remains without competition. The deicing system is a particular feature of this helicopter that makes it ideal for offshore missions and rescue operations under extreme conditions.

**PRODUCTION START-UP FOR THE TIGER.** The contract for the first production batch of the Franco-German Tiger helicopter was signed in June. The first production run comprises 80 helicopters each for Germany and France. The two-seater Tiger is based on a modular concept and has been developed as a versatile helicopter for combat and support missions. It can also be used for civil operations, including deployment as a transport helicopter on humanitarian missions.

Development of the NH90 military transport helicopter was continued according to plan. This helicopter is equipped with glass cockpit, electronic flight control and the latest rotor technology. It is a joint project between the four countries Germany, France, Italy and the Netherlands. On May 31, the first German prototype celebrated its maiden flight in Ottobrunn.



# Military Aircraft Eurofighter volume production to begin

*The first Eurofighter from series production will make its first flight in the third quarter of 2001. The production will run from 1998 to 2015. During this phase 620 aircraft will be manufactured for the four member states.*



Amounts in millions	99 US\$	99 €	98 €
Revenues	1,085	1,077	957
Incoming Orders	833	827	2,702
R&D Expenses	227	225	217
Employees (Dec. 31)		6,308	5,913

**Getting volume production up and running have directed our activities within the Eurofighter program as well as our export offensive. Revenues increased by 13% in 1999 to more than one billion euros. The Tornado program generated the highest sales after the Eurofighter.**



**OUR EXPERTISE IN MILITARY AIRCRAFT CONSTRUCTION.** The Military Aircraft business unit designs, develops, builds and provides support for fighter, transport and mission aircraft. Our capacities and expertise in integrating the most diverse peripheral systems in military aircraft are also concentrated in this unit. Areas of activity further include airborne reconnaissance and guidance systems, trainer aircraft and training systems for the instruction of aircrews and technical staff. This business unit provides technical and logistic support for airborne systems operated by the Bundeswehr and other NATO forces. We also develop and implement programs for refit, extending service life and upgrades for these partners.

**SIGNIFICANT INCREASE IN REVENUES.** Revenues in the business unit rose during 1999 by 13% to €1,077 (1998: 957) million. Our Eurofighter and Tornado programs contributed approximately half the revenues.

Incoming orders amounted to €827 (1998: 2,702) million. In line with expectations, they remained below the record levels achieved in 1998. The extraordinary increase last year resulted from orders for production investment and the first production batch in the Eurofighter program. The significant increase in incoming orders for the Tornado program formed the focus in 1999.

Expenditure on research and development went up by 4% to €225 (1998: 217) million. This included €179 (1998: 189) million invested in projects under third-party contracts.

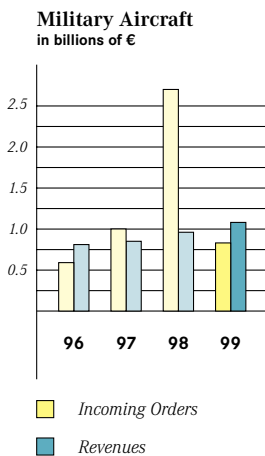
**PRODUCTION LAUNCH IN THE EUROFIGHTER PROGRAM.** The Eurofighter is currently our most important program from technological and commercial perspectives. We started the production investment program in 1998 and received the go-ahead for volume production. Getting production up and

The German Tornado aircraft in the ECR version for electronic warfare and reconnaissance are among the required armament for Nato units in crisis missions (photo left). Mako (photo right) is our extensive concept of a light attack aircraft and a high-performance trainer aircraft of the fourth generation.



running then formed the focus of our activities during the year under review. On 5 August 1999 we started building the first of 620 center fuselage sections in our Augsburg plant. In the course of our ongoing test program we have upgraded the avionics on the DA1 prototype, which has now also been fitted with EJ200 production engines envisaged for the series. The prototype was then put through its paces in a grueling test program in Sardinia during the fall of 1999.

Dasa's Military Aircraft business unit is responsible within the consortium for European exports of the Eurofighter. In November 1999 we started up concrete negotiations with Norway on the delivery of 20 to 30 aircraft. A decision on our bid may well be taken as early as the first half of the year 2000. The Greek government has decided to start up exclusive negotiations with the Eurofighter Consortium on the procurement of between 60 and 90 Eurofighters.



**UPGRADE PROGRAMS FOR TORNADO AND PHANTOM F-4.**

The upgrade program for Tornado aircraft operated by the German Luftwaffe involved integrating new avionics software and new avionics hardware in the fighter fleet. We conducted successful flight tests on the new components in the course of this upgrade program during 1999. We were also involved in upgrading the British fighter bomber fleet, focusing in particular on the avionics software.

Advanced avionics software is essential for integrating state-of-the-art aircraft components and system peripherals into Tornados, such as the Global Positioning System (GPS), the laser gyro platform, the laser designator pod and the HARM III antiradiation missile.

Experience gained from flying missions in the Kosovo conflict have led to the implementation of adjustments in the integrated precision weapons.

The first flight test was carried out according to schedule on an F-4E upgraded to the Peace Icarus 2000 Standard as the upgrade program for the Greek fleet of Phantom F-4 aircraft got underway on 28 April 1999. This permitted us to increase navigation precision and the effectiveness of this weapon system. Concurrently with the beginning of the test program, our partner Hellenic Aircraft Industries started work on upgrading the remaining 36 aircraft.

**INTERNATIONAL SUPPORT SERVICES FOR THE MiG-29.**

Poland and Hungary joined NATO in March 1999. Both countries have MiG-29 aircraft that fail to come up to current requirements of the Alliance and international aviation authorities on communication, identification and navigation. Military Aircraft provides a range of packages that can be tailored to customers' requirements for upgrading these aircraft. These options can meet minimum requirements or encompass more sophisticated upgrades to allow the aircraft to remain in service until at least 2015.





To strengthen our capabilities in upgrading MiG-29 aircraft, the Military Aircraft business unit signed a cooperation agreement with our Russian MiG-29 partners WPK Mapo and Roswoorushenije in June 1999. Cooperation started in earnest in August 1999 and now extends to aircraft maintenance alongside specialist upgrades.

We concluded additional agreements on support and upgrade services in Bulgaria and Rumania. The main thrust of future growth potential for this kind of package is from countries in central and southeast Europe.

**ACTIVITIES IN TRANSPORT AND MISSION AIRCRAFT.** From 2000 we will be fitting the 86 aircraft in the German Luftwaffe's C-160 Transall fleet with an Airborne Collision Avoidance System (Acas). This provides the pilot with support in avoiding airborne collisions with other aircraft. Tests on this system were completed in August 1999.

Military Aircraft has been implementing the upgrade program Autonomous Navigation System/Flight Control System for the Bundeswehr and this is due to be completed towards the end of 2000. We are now preparing for further upgrade programs that focus mainly on improving self-protection systems and intercommunication systems for the C-160.

Our order for Radar System Improvement (RSIP) for the Awacs early-warning fleet is due to be completed by the end of the year 2000. We therefore achieved a significant success in being awarded the contract for the installation of the Acas system and mid-term upgrade for the Awacs early-warning fleet ahead of time.

We have been fitting new navigation systems and night-vision equipment to improve the mission capability of the German navy's 18 marine Breguet 1150 Atlantic reconnaissance aircraft since the start of 1999. A prototype of the Acas system was installed in a test aircraft and the flight trial was started up that is scheduled for completion by the beginning of 2000.

**FUTURE AND TECHNOLOGY PROGRAMS.** Capitalizing on the successful German-American X-31 program, we have made preparations in 1999 for carrying out further trials using the available experimental aircraft to investigate thrust vector control starting in 2000. The new Vector program has been designed to demonstrate flights with a reduced tail unit, removed completely at a later stage, and extremely short takeoffs and landings. While the German and American defense ministries signed cooperation contracts in 1999, there is still a questionmark over Sweden participating as a third partner.

The Mako Project focused on analyzing the market potential and suitable industrial partners for cooperation on our modular concept for light fighter aircraft and high-performance training aircraft in the fourth generation. In November 1999 we signed a Memorandum of Understanding with the air forces of the United Arab Emirates as a basis for exploring potential cooperation.

# Space Infrastructure

## Ariane launch vehicles successful again



*During its first commercial flight on December 10, 1999, Ariane 5 launched the X-ray satellite XMM<sub>7</sub> developed under our lead for ESA.*

Amounts in millions	99 US\$	99 €	98 €
Revenues	596	592	582
Incoming Orders	384	381	532
R&D Expenses	310	308	321
Employees (Dec. 31)		2,098	1,990

Activities in 1999 were focused on the development work for the international space station and the evolution of the Ariane 5 launch vehicle. Following delayed payload deliveries, the successful launch of 10 Ariane 4 and 5 could be booked at the end of the year. Revenues were slightly above last year's level. On account of special effects, incoming orders of €381 million were below last year's level (1998: €532 million). The contract award for the automated transfer vehicle ATV was of outstanding importance in this context.

**SOLID LAUNCH POSITION FOR ASTRIUM.** The Space Infrastructure business unit is our center of competence for launch vehicles, propulsion systems, orbital systems and the utilization of orbital systems. Development and production are performed at Bremen, Friedrichshafen, Lampoldshausen and Ottobrunn.

**REVENUES AT SATISFACTORY HIGH LEVEL.** In the 1999 business year, revenues rose by 2% to €592 (1998: 582) million. As in the previous year, the programs for the evolution and production of the European Ariane launch vehicles and the space laboratory Columbus contributed most to this result. Columbus is being built under contract to ESA as Europe's share in the international space station ISS.

In 1999 we posted incoming orders of €381 (1998: 532) million. One of the major orders was the contract award for the automated transfer vehicle ATV. The decline is primarily attributable to the high-volume orders placed for the Ariane program in the previous year and to the postponement of contracts from the 1999 business year into 2000.

The research and development expenses of €308 million, which mainly concerned projects commissioned by third parties, remained virtually unchanged compared to the previous year's figure of € 321 million. R&D activities concentrated on the evolution of Ariane 5, our participation in the Columbus space laboratory and the start of development work on the unmanned transfer vehicle ATV.



The photo on the left shows the high-precision measurement of a 1,200 liter satellite tank constructed by our company. The first of two Lower Body Negative Pressure (LBNP) devices was delivered to Nasa in 1999 and will be transported to ISS for research purposes in the fall of 2000. (photo right)



**PROPULSION AND TRANSPORTATION SYSTEMS – ORDERS FOR ARIANE 5.** The core business of the Propulsion and Transportation Systems unit are all activities related to the European launch vehicles Ariane. In spite of delayed payload deliveries, a total of 9 Ariane 4 and 1 Ariane 5 missions were successfully launched.

The European Space Agency ESA also awarded us the system lead for the development of a more powerful cryogenic upper stage for the Ariane 5 booster. Additionally, we are involved in the development of the thrust chamber for the new upper-stage engine Vinci. We expect both projects to be a driving force in the future development of the Ariane business.

Satellite propulsion systems constitute another focal point of activity. In 1999, we shipped the one thousandth type 10N bipropellant thruster. We also received the production contract for the monopropellant thrusters of another eight spacecraft for the global mobile communications network Globalstar. Together with our American partner we continued

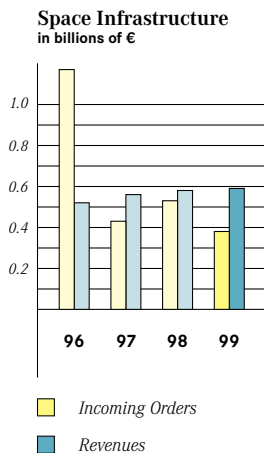
development on a turbopump engine for use in a U.S. launcher system and stepped up our developmental activities in future-oriented technologies.

Under the terms of the national program for future reusable space transportation systems, Astra, we will be the industrial lead partner on account of our system-leader experience in the ESA study Festip (Future Space Transportation Investigation Program). The objective of this program is to systematically secure and expand system capabilities and key qualifications in order to be a competitive partner on the market for tomorrow's technologies.

**ORBITAL SYSTEMS AND OPERATION SHAPED BY ISS PROJECTS.** In the Orbital Systems & Operation unit we concentrated on advancing the industrialization of operations and the commercial utilization of the ISS, on tapping new markets and processing ongoing contracts according to plan.

In May 1999, a resolution of the Ministerial Conference provided the political prerequisites for industrializing operations in the European part of the ISS. Consequently, at industry level, we teamed up with Alenia, Matra Marconi Space (MMS) and Aerospatiale, with Dasa as consortium leader. This team will organize both the service and operations tasks and the utilization of the space station.

Furthermore, the company Beos GmbH (Bremen Engineering Operations Science) was successfully established as a space operations and utilization center. Service can thus be started at the beginning of 2000 and the first fixed order can be processed.







In order to tap further business potential in the USA, we have increased our stake in the U.S. company Spacehab, Inc. and are now the largest shareholder with approximately 11%. Among other things, Spacehab builds modules for Nasa space transportation systems and is currently expanding its operator services in view of the ISS program.

We are responsible for various development activities under the ISS projects Columbus space laboratory and the unmanned transfer vehicle ATV (Automated Transfer Vehicle), and for work shares in the ISS robotic system European Robotic Arm. The ATV project was of particular importance in this context. To ensure compliance with the production schedule, we were responsible for parts procurement and signed a contract with Aerospaciale Matra Lanceurs for the manufacture of the propulsion unit and its integration.

**PAYLOADS- FACILITIES DEVELOPMENT FOR ISS UTILIZATION PURSUED WITH EMPHASIS.** As a competence center of worldwide renown we deliver facilities for all fields of micro-gravity research and support the users in the performance of their experiments.

In the 1999 business year, we delivered the lower body negative pressure device to Nasa as the first German facility for the ISS. The material science lab, the fluid science lab and the biolab are under production. Hardware development for the ISS continues under the contracts for the protein crystallization diagnostics facility and the modular cultivation system. The development of a cardiovascular diagnostic center for astronauts was started for the cardiolab. We are also building the transportation and storage refrigeration units for the food supply of the space station crews.

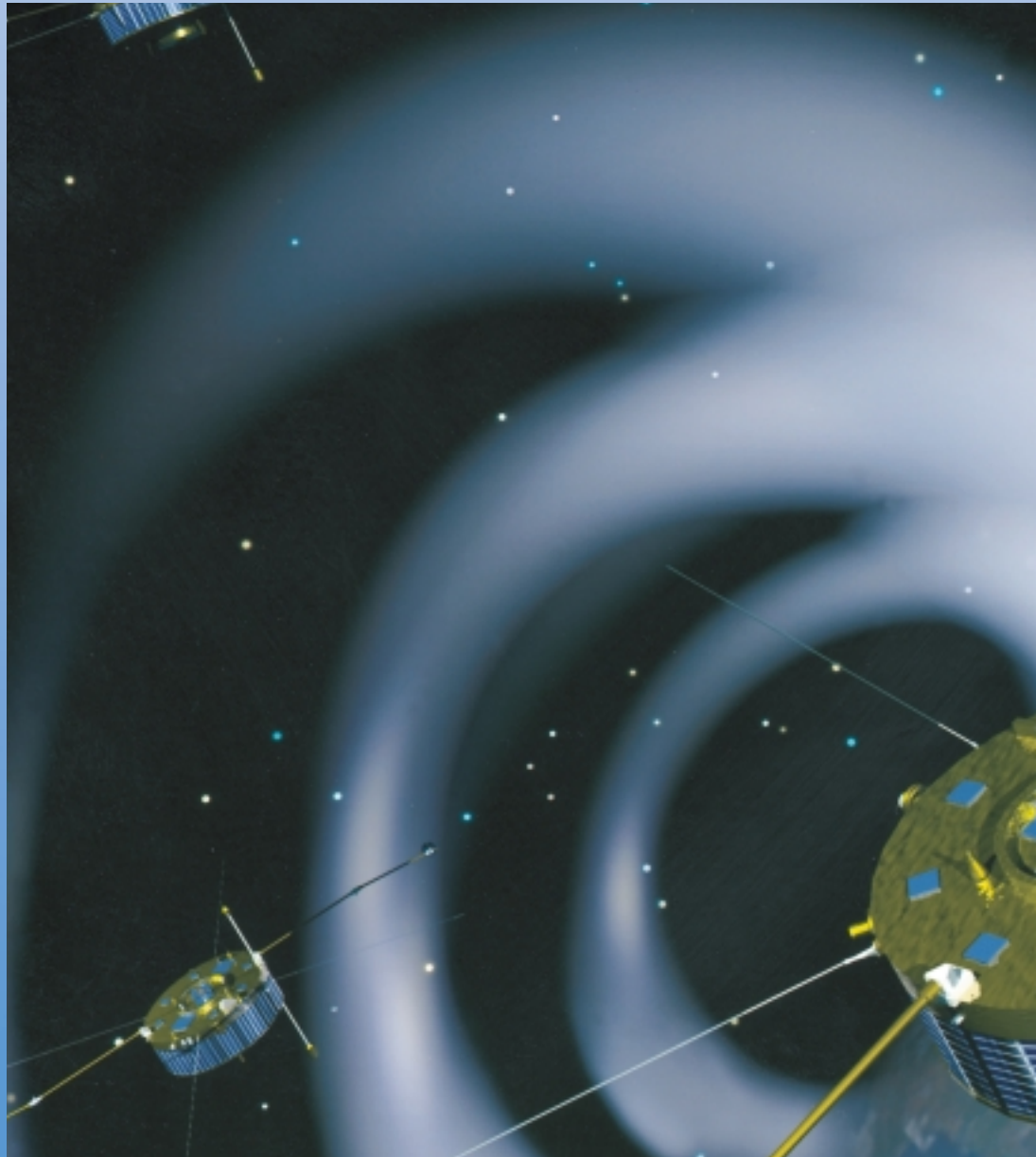
Under ESA contract we have developed the fault tolerant computer, FTC - the core of the data management system for the Russian service module. As an adapted version of the FTC will also be used in the transfer vehicle ATV, we have negotiated a development contract with Matra Marconi Space and launched the corresponding work.

A technology demonstrator was built for a smaller but faster variant of the FTC, designed for use outside space systems. The underlying concept was successfully tested. Boeing awarded us the contract to test the system's suitability for the CTV (Crew Transfer Vehicle). These tests are planned for the spring of 2000. We also received a development contract from DaimlerChrysler for a miniaturized and upgraded version of the FTC for applications outside the space sector.

# Satellites

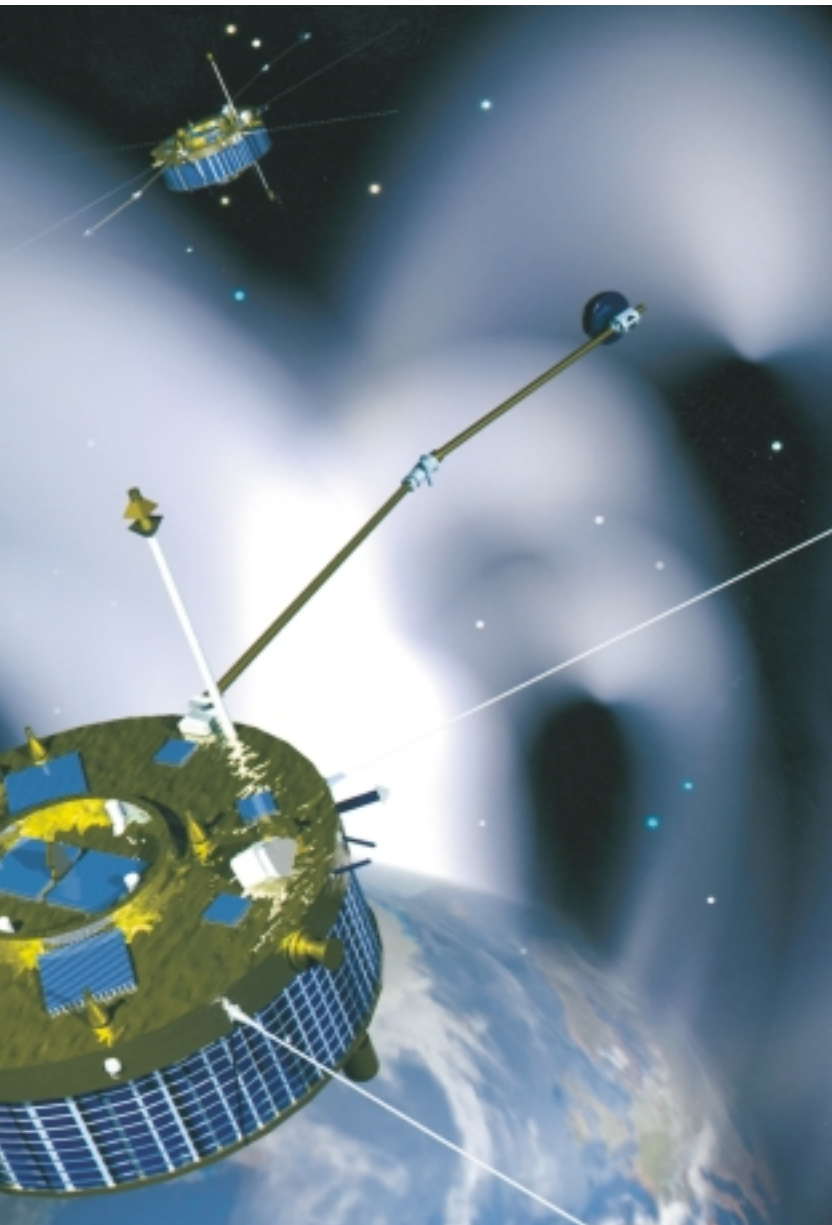
## Focusing on Commercial Business Expansion

*The last of four satellites in Cluster II fleet was completed in November 1999. By the summer of 2000, the four satellites ordered by ESA will be launched into orbit for research purposes.*



Amounts in millions	99 US\$	99 €	98 €
Revenues	461	458	645
Incoming Orders	527	523	609
R&D Expenses	430	427	532
Employees (Dec. 31)		1,455	1,652

**In the Satellites business unit, the revenues of €458 (1998: 645) million were below last year's level as a result of structural changes. The incoming orders of €523 (1998: 609) million exceeded our expectations. Global market trends caused investors' restraints, especially with planned new programs for telecommunications constellations, and resulted in order delays. In 2000, expected orders from this sector, and the policy shift in favor of satellite navigation will further raise the commercial share of revenues.**



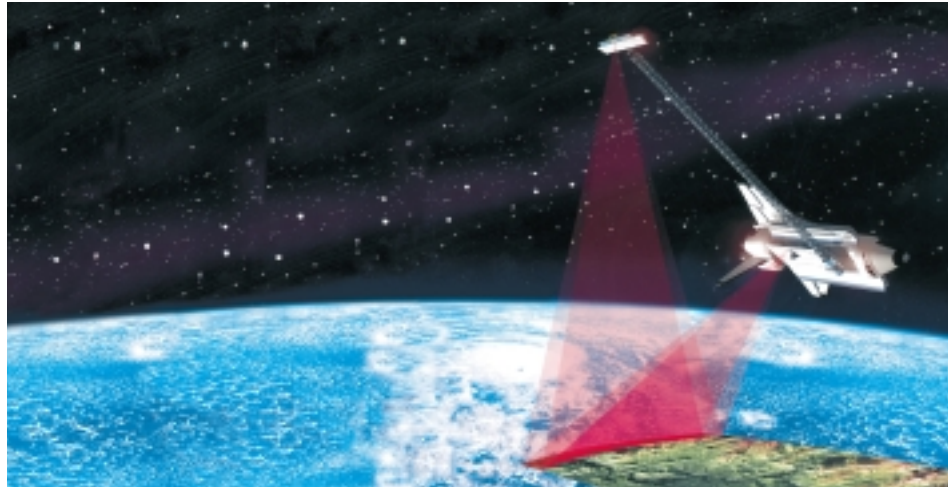
**MARKETING INITIATIVES LAUNCHED.** In the Satellites business unit, Dornier Satellitensysteme GmbH (DSS) has the system lead for the programs of the European Space Agency (ESA) and the national agency, Deutsches Zentrum für Luft- und Raumfahrt (DLR). DSS is Europe's leading manufacturer in the fields of science and earth observation, and is the industrial prime contractor for almost all large-scale programs performed or launched by ESA so far for these applications.

Public budgets will rather decline in the medium to long term. On account of these baseline conditions we can tap new growth potential only by expanding our commercial satellite business. Constellations - satellite networks for mobile communications and multimedia applications - are offering new opportunities. The same applies for navigation. In this sector ESA and the European Commission have opted for the development of an autonomous, civil satellite system for position finding, as complement to the American GPS (Global Positioning System). The marketing initiatives launched by the Satellites business unit have substantially contributed to this decision-making process in Europe. Similar efforts were also initiated in the security-policy sector, and were geared towards reconnaissance and communications systems. Market and customer requirements are also at the fore of a new business development in earth observation. The manufacturing business in the Satellites business unit is complemented by telecommunication services which are concentrated under the umbrella of the Telecommunication Operation and Service unit.

**TREND TOWARDS SMALLER PROJECTS.** The revenues of the Satellites business unit of €458 (1998: 645) million remained below the level of last year. This decline is primarily attributable to structural changes in the orders. In the past, large-scale projects were predominant involving extensive subcontractor shares, whereas the current



Under the terms of the Shuttle Radar Topography Mission (Srtm) conducted in February 2000, large areas of the Earth were scanned in stereo by the X-SAR radar system developed by our company. The data obtained will be used for generating a three-dimensional global map. On the right is a model of the future European satellite navigation system Galileo in its first expansion stage.

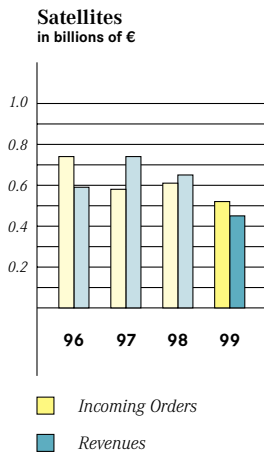


tendency goes increasingly towards smaller, lower-revenue projects with a higher company-own share. This is also a decisive factor for our continuing full capacity utilization.

Incoming orders amounting to €523 (1998: 609) million exceeded our expectations. The postponements in commercial constellation programs as a result of a difficult market environment have been more than compensated by our stepped-up marketing efforts for other programs.

In 1999, the research and development expenditure of €427 (1998: 532) million mainly concerned ESA's major earth observation and science programs.

**SATELLITE SYSTEMS FOR SCIENCE PROGRAMS.** On December 10, 1999, Europe's largest spacecraft to date, the X-ray satellite XMM (X-Ray Multi Mirror), was launched from the space center in Kourou, French Guayana. It will trace X-ray sources in space which, so far, could not be observed from the earth. Developed under our system lead, this is



the first successful milestone under the terms of the ESA program Horizon 2000. Two further large-scale projects in this program include Cluster II and Rosetta.

All tests were successfully completed on the four identical Cluster spacecraft which will explore the interaction between the Sun and the earth's magnetosphere. In summer 2000, they will be launched from the Russian Cosmodrome in Baikonur. Scientists expect a powerful solar eruption around that time and hope to obtain new findings on the solar winds and particle storms.

In 1999, the main development phase was started for the science program Rosetta, an international cometary mission designed to explore the comet Wirtanen. The mission to comet Wirtanen is planned for 2003, and the scientific community expects to gather more information on the origin of the solar system.

**SATELLITE SYSTEMS FOR EARTH OBSERVATION.** Following the radar satellites ERS-1 and ERS-2, which are successfully in operation, the follow-on program, Envisat-1, is also being developed under the industrial lead of DSS on behalf of ESA. This is Europe's most challenging earth observation program to date and the largest contract ever awarded to the German satellite industry. After its planned launch in mid-2001 the spacecraft will gather data on the complex status parameters of the atmosphere, oceans, polar ice caps and landmasses.

In 2000, 2003 and 2008, a second generation of weather satellites will gradually replace the Meteosat spacecraft currently in service. The new generation will offer a higher resolution and more spectral regions. Under contract to Alcatel Space, DSS is responsible for the power supply, attitude and orbit control subsystems and the propulsion system. The first flight unit has been shipped by the industry.

For commercial earth observation applications, small satellites ideally complement the more science-oriented and thus highly complex missions. DSS has successfully established the Flexbus concept on the market. Competitive advantages can be achieved with this concept which relies on proven





components from other projects. Activities under Flexbus are currently focused on two identical spacecraft developed for the NASA mission Grace.

New satellites delivering data with a high spatial and thematic resolution are expected to open new marketing opportunities for geoinformation. DSS capitalizes on its extensive competence in radar instrumentation, especially in SAR (Synthetic Aperture Radar). In cooperation with DLR (Deutsches Zentrum für Luft- und Raumfahrt) and British partners, the project InfoTerra/TerraSAR was launched as a guideline concept for the commercialization of geoinformation. Primary fields of application are cartography, agriculture and forestry, environmental protection, exploration, risk management and regional planning.

#### **SATELLITE SYSTEMS FOR COMMUNICATIONS/NAVIGATION.**

We rank among the leading suppliers worldwide for conventional, geostationary communications satellites subsystems such as solar arrays, attitude and orbit control, and antennas.

In the future, constellations will offer new marketing opportunities for complete spacecraft platforms for mobile communications, multimedia communications and navigation applications. Our successful participation in the mobile communications system Globalstar was the first step in this direction. Under this program, cost-cutting series-production processes were implemented for the first time. The experience gathered in this project will be transferred to the design of a new spacecraft bus which will be prepared for future constellations.

Navigation is emerging as a further field of application for the satellite industry. In the future it will be an indispensable element in modern traffic infrastructure and for fleet management. In Europe, initially, the positioning quality of the

existing American GPS (Global Positioning System) will be enhanced for civilian users through technical improvements. Under an ESA contract, DSS will deliver ground stations for the planned "European Geostationary Navigation Overlay Service (EGNOS)". In a second step, the autonomous European satellite navigation system Galileo will be created on behalf of ESA and the EU. In this context, phase A for the space segment GalileoSat was completed.

**MILITARY APPLICATION SYSTEMS.** Up until now, no defense budget contract has been awarded to German industry for a satellite system. For reconnaissance operations in the security-policy domain, a new initiative was launched with the concept study "SAR scope" under contract to the German Procurement Agency (BWB). This radar system will be able to perform observations through a cloud cover and at night and to relay the data to a ground station.

**TELECOMMUNICATION - OPERATION AND SERVICE.** In late 1999, the mobile communications operator Globalstar L.P., in which we hold a 2.3-percent share, started commercial service. Together with Loral we hold 100 percent of the shares in the Brazilian Globalstar service provider, Globalstar do Brasil, which also started commercial service in late 1999. The investment in the Argentinean satellite provider NahuelSat S.A. was raised to 21 percent. To expand business, especially towards North America, the procurement of a second satellite is in preparation.

# Defense and Civil Systems Growth in a difficult environment

*KEPD 350 in the operational two-unit configuration on a Tornado. We are developing this standoff weapon system for Tornado armament in cooperation with the Swedish Bofors Missiles AB of the Celsius group.*



Amounts in millions	99	99	98
	US \$	€	€
Revenues	1,736	1,724	1,729
Incoming Orders	1,566	1,555	2,059
R&D Expenses	495	492	460
Employees (Dec. 31)		8,266	9,109

**In 1999, revenues in the Defense and Civil Systems business unit increased by approximately 10% after adjustments for structural changes. However, first effects of the cuts in the defense budget have been lower incoming orders of €1.6 (1998: 2.1) billion. Therefore, already in 1999, we decided to reduce personnel and to adapt the organization of the business unit again. Nortel Dasa recorded a particularly positive development.**



**CORE COMPETENCIES OF THE BUSINESS UNIT.** The Defense and Civil Systems business unit is acting in the fields of defense electronics, missile systems and telecommunications. Its range comprises radar technology, radio communications and electronic warfare, as well as reconnaissance, command, control and information systems. Furthermore, the core competencies include the system capability in the field of missile systems and air defense, as well as products and services for digital communication networks for companies and public network operators.

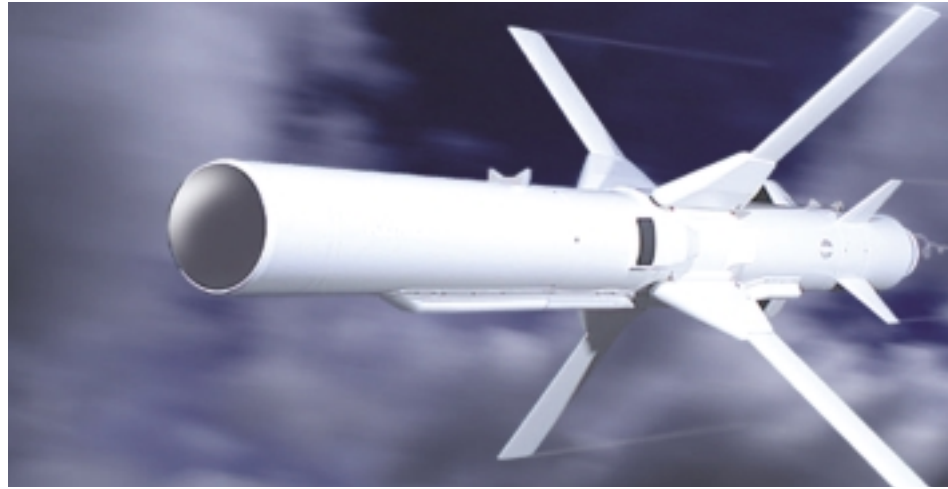
The business unit has continued to adjust product development to the new market requirements. These include developments for an integrated reconnaissance, command, control and communication system and for precise standoff missiles. With innovative product developments in the field of defense electronics and missile systems, we have achieved important program milestones and strengthened our competitive position.

**FURTHER INCREASES IN REVENUES.** In result of structural changes, such as the sale of CMS Inc. of the Airport Systems unit and Elekluft GmbH, revenues reached €1.7 billion as in the previous year. Adjusted for such structural changes revenues increased of approximately 10% to which Nortel Dasa has contributed a 53% growth rate in the field of telecommunications.

At €1.6 (1998: 2.1) billion, incoming orders were markedly lower in comparison to the previous year's level. The cuts in the defense budget resulted in restrictive contract awarding already in 1999. On the contrary, Nortel Dasa recorded a high growth in incoming orders by 38%.



The Polyphem missile (left) has in-flight controls operated via a fiber-optic cable. In the training simulator for the air defense system Stinger: the two gunners are provided with electronic spectacles for the virtual stereoscopic representation of the complete combat scenario in accordance with the respective viewing direction.



Spending on research and development amounted to €492 (1998: 460) million, of which €409 (1998: 378) million were accounted for by activities performed on behalf of third parties and €83 (1998: 82) million for activities financed with corporate funds. This development sum was used for financing future-oriented projects and process optimization.

**STRUCTURAL IMPROVEMENTS WITHIN THE BUSINESS UNIT.**

In early 1999, a new market-oriented organization was implemented whose aim is to optimally use the market potential and speed up the growth in the export markets. At the same time, new business processes were introduced for achieving a sustained improvement of the cost structure and the optimization of cooperation across the locations. Furthermore, the average age and the qualification structure have been positively changed by our selective human resources policy. We continued to concentrate on our core business.

Thus, we sold Elekluft GmbH and retained only its defense activities. The relocation of the headquarters and the development capacities of LFK-Lenkflugkörpersysteme GmbH from Ottobrunn to Unterschleißheim was a decisive step towards concentrating our business activities on three core locations.

**NEW TRENDS IN COMMAND CONTROL COMMUNICATIONS**

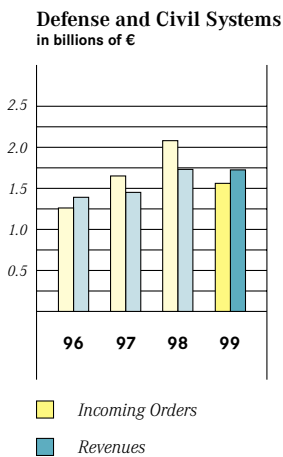
**INTELLIGENCE.** The Kosovo mission clearly showed the need for modernizing the reconnaissance, command, control and communication systems of the German armed forces to meet the new tasks. However, the budget funds required for financing this modernization are missing. Thus, we had to perform capacity and structural adjustments, such as giving up the Radio Communications unit.

The necessity of integrating the heterogeneous command and control systems of the military services to a command and control system intensified in 1999. We successfully continued the definition and development activities in the projects GefüSys, Heros Batch 2, Field Trial 2000. In addition, we delivered the Control and Reporting Center CRC-Schönewalde to the German Air Force.

In the field of digital networks, we have intensified our activities. The development contract for the mobile tactical telecommunications network AutoKo 90 aims at ensuring integrated communication with ISDNBw, ISDN Telekom and SATCOMBw. Greece extended its available telecommunications network Hermes I by the digital Hermes II system. The general challenge is to increasingly use “Commercial Off-The-Shelf (Cots)” technologies, products and software for military systems.

**ENCOURAGING UPWARD TRENDS IN AIRBORNE SYSTEMS.**

With more than 200 missions, the reconnaissance drone CL-289 contributed to successful conflict management in Kosovo. Improvements referring to all-weather capability and real-time data transfer of the system have already been ordered. In addition, the debate on a national strategic, satellite-based reconnaissance means (SAR scope) and the AGS (Alliance Ground Surveillance) Nato project was intensified. A company





consortium, with Dornier as a member, has agreed on a European reconnaissance radar initiative Sostar (Stand-Off Surveillance and Target Acquisition Radar).

An important order of the Airborne Systems unit was the modernization of the Phantom F4 onboard radars of the Greek air force. Type certification was granted for the Tornado Self Protection Jammer (TSPJ), thus completing the development phase. The Federal Border Guard awarded us a contract for supplying laser obstacle warning systems for helicopters (Hel-las) and the Swiss air force decided in favor of our electronic reconnaissance data evaluation and processing system.

**EXPORT SUCCESSES OF THE GROUND AND NAVAL SYSTEMS.**

In 1999, we received the order for delivering mobile hospitals to the United Arab Emirates. After Spain, Austria also decided to procure our advanced foldable bridge. Additionally, we handed over the shipborne radar system TRS-3D to the Spanish navy.

The development contract of the artillery radar Cobra was successfully concluded and the production contract was fulfilled as scheduled. Furthermore, the corvette K130 definition activities were continued with both shipyard consortia. In the field of security systems, operator and service projects in the Nato, airport, depot and bank sector were delivered.

**BUDGET REDUCTIONS AFFECT THE MISSILE AND AIR DEFENSE SYSTEMS.** With innovative and production-standard products, e.g. Polyphem, MAW Taurus and Trigat MR, the Missile and Air Defense Systems unit has taken a favorable market position. The cuts in the defense budget, however, resulted in a restrictive placing of orders in 1999. Therefore, we have developed alternative financing concepts for being able to implement our future programs.

Within the industrialization and series production of the Tiger support helicopter, we received an order for 90 ATA (Anti Tank Armament) systems designed for the antitank systems HOT and Trigat LR. Furthermore, we were awarded series production of the missile warning system MILDS for Tiger. Under the terms of the MAW Taurus KEPD 350 development program, successful and on-time completion of the first free flight was carried out in mid-1999.

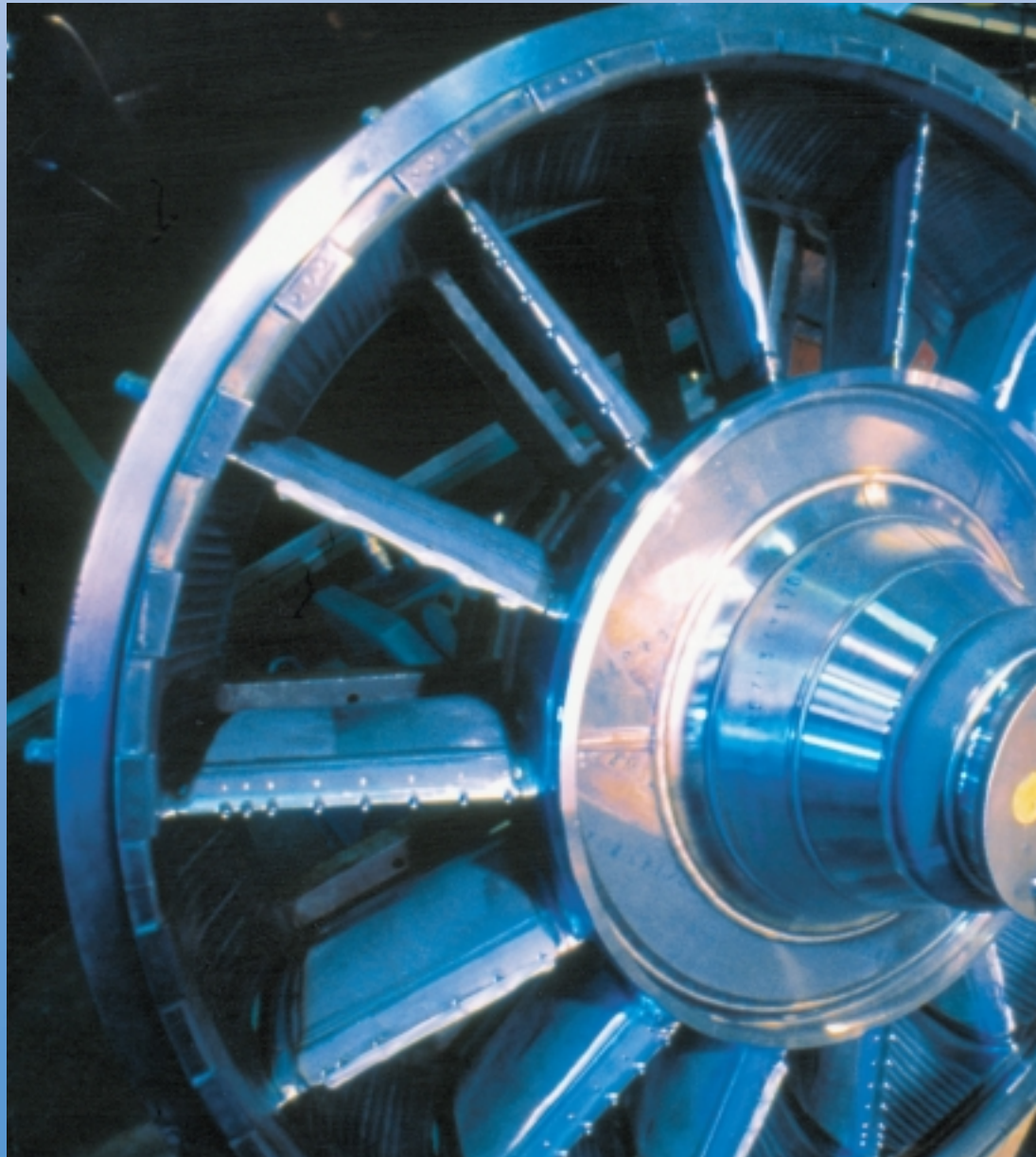
We successfully demonstrated the warhead effectivity of the Polyphem missile planned for the corvette K130. The activities on a future European medium-range air-to-air missile (Euraam/Meteor) have been continued.

**STRONG GROWTH OF NORTEL DASA.** In 1999 our Canadian-German joint venture also benefited from the booming telecommunications market. Thus, compared to the previous year's level, Nortel Dasa increased its revenues by 53% and its incoming orders by 38%. By merging with Bay Deutschland, Nortel Dasa has a national leading competitive position now.

The development and expansion of the mobile radio communication network E2 for Viag Interkom was a main activity within the field of public network operators. Furthermore, Nortel Dasa is responsible for the mobile radio communication network GSM-Rail as the system supplier. GSM-Rail is being implemented for Deutsche Bahn AG under contract to Mannesmann Arcor and will ensure complete handling of data and voice traffic of the railway. In the field of business customers, Nortel Dasa could win the new marketing partner DeTeWe, thus improving customer access and service network. MilSatCom, a €50 million contract for the military satellite communication systems of the German armed forces was won in the field of Satellite Communications.

# Aero Engines Further growth in Maintenance Business

*The PW 2000 engine family program has become an important performer both in new sales and in the spare parts business.*





Amounts in millions	99	99	98
	US \$	€	€
Revenues	1,754	1,742	1,660
Incoming Orders	1,559	1,548	2,594
R&D Expenses	138	137	153
Employees (Dec. 31)		6,875	6,633

**In 1999, it was chiefly the growing after-sales business that increased revenues to €1.7 billion. After the previous year's flurry of big contract wins, 1999's incoming orders, at €1.5 billion, expectedly fell short of the prior year's level. The company formed several joint ventures to sustain its expansion strategy and improve its competitiveness especially in the engine repair and overhaul (R&O) business.**



**BROAD LINE OF PRODUCTS AND SERVICES.** The company's Aero Engine business unit encompasses the development, manufacturing and R&O activities of our subsidiary MTU München and its affiliates MTU Maintenance Hannover, MTU Maintenance Berlin-Brandenburg and MTU Maintenance Canada.

Germany's leading engine manufacturer, MTU Motoren- und Turbinen-Union München GmbH cooperates with European, U.S. and Japanese partners to design, manufacture and provide service support for commercial and military aircraft engines and aero-derivative industrial gas turbines. MTU München also is the country's sole provider of military aircraft engines.

MTU Maintenance Hannover and MTU Maintenance Canada Ltd., the company's first affiliate in North America, focus on the repair and overhaul of medium to large commercial jet engines. It enriches its line of R&O products with technical and logistic consultation, support and training offerings for customers desiring to operate their own engine repair facilities.

MTU Maintenance Berlin-Brandenburg repairs industrial and marine gas turbines and smaller turbojet and turboshaft engines.

**REVENUES ON THE RISE.** Growth in the repair and overhaul business and the dollar's recent revival boosted the Aero Engine business unit's already healthy revenues another 5% to €1.74 billion over the €1.66 billion achieved a year ago.

Unlike revenues incoming orders trailed behind last year with its windfall contract awards for the EJ200 (Eurofighter) and RB119 (Tornado), flattening out at a predictably lower level.



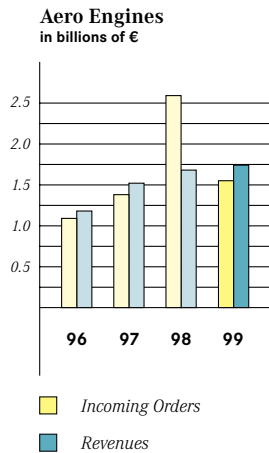
The areas of responsibility of MTU Maintenance Hannover and MTU Maintenance Canada include repair and overhaul of commercial jet engines in the medium to large power categories, e.g. the V 2500 engine (left).

However, the service offering of MTU Maintenance Berlin-Brandenburg also includes industrial gas turbines – an LM6000 is shown – and engines in the lower thrust and shaft horsepower categories.



Our research and development (R&D) expenditures totaled €137 (1998: 153) million. About two-thirds of these went to projects we pursued under contracts from customers. EJ200 (Eurofighter) development remained the dominant R&D item. The focus of company-funded product development currently is on regional aircraft engines. Using company and government funds we are also advancing the development of innovative engine technologies to lower contamination, noise and fuel burn.

**PROFITABILITY IMPROVEMENT EFFORT.** When MTU Maintenance Canada Ltd. was formed in 1998, Canadian Airlines spun off its entire engine repair and overhaul (R&O) effort into the joint company, expanding our R&O product line by the JT8D. We hope to still include the CFM56-3 and CFM56-5 engines in our R&O portfolio. These would tap a substantial market for us, since there are several thousand copies of these two engines flying.



An repair and overhaul contract on AlliedSignal's ASE40, ASE50 and ASE120 turbines in the 0.5-15 MW range will provide us with workload in the years ahead. A first ASE turbine will visit the shop in 2000.

To strengthen our global market presence we signed an agreement with China Southern to float a R&O joint venture in 2001. With AlliedSignal we launched Vericor Power Systems to market industrial gas turbines. We also formed a joint ceramic coating company with Snecma in France.

**WORLDWIDE COMMERCIAL AIRCRAFT ENGINE COOPERATIONS.** On February 1, 1999, MTU was appointed Pratt & Whitney's supplier in the PW6000 engine program. Here, we have developed the first prototype engine in record time and have already begun tests. Our stake includes the design, manufacture and assembly of the complete low-pressure turbine. In its launch application, the PW6000 will power the new Airbus Industrie A318.

We are partnering also in the PW4173, which is targeted at Airbus Industrie's A330-200/300. Our share includes design work for the low-pressure turbine and the manufacture of high-pressure turbine nozzles and low-pressure turbine disks and blades.

Further mainstays of our business are joint activities we are pursuing with Pratt & Whitney in the PW4084/90/98, PW2000, PW300 and PW500 engine families. The PW2000's 60% market share will provide us with a steady stream of manufacturing and after-sales service business. We expect this engine to find a home on the Ilyushin IL-96 M/T passenger and cargo versions, which in 1999 won FAA certification with the PW2000 and Western avionics.



Of key significance to the company is also its cooperation with Rolls-Royce, Pratt & Whitney, Japanese Aero Engines Corporation and FiatAvio in IAE International Aero Engines AG. In IAE we are jointly developing, manufacturing and marketing the V2500 engine, which is powering Airbus Industrie's A319/A320/A321 and Boeing's MD-90. This engine's after-sales business is enjoying healthy growth.

Our spare parts business is to a large extent sustained also by the General Electric CF6 engine program, in which we have had a stake for over 25 years. The current CF6-80C and CF6-80E versions are flying on Airbus A300, A310 and A330, Boeing 747-400, 767 and MD-11 widebodies. In spring 1999, an updated version, designated CF6-80C, was delivered.

**EUROPEAN COOPERATION ON MILITARY ENGINES.** Jointly with Rolls-Royce, FiatAvio and ITP, we are developing and manufacturing the EJ200 engine to power Eurofighter. Our development share includes the low- and high-pressure turbines, the electronic engine control, work on the high-pressure turbine, and engine assembly and test run activities. Production approval is currently underway and 23 of the planned 28 prototype engines have already been delivered. In January 1999, we received production go-ahead for the first, 363-engine tranche.

The RB199 was jointly developed and manufactured by Rolls-Royce, MTU and FiatAvio to power the Tornado multi-role combat aircraft. After the wind-down of the engine's production we are focusing mainly on the engine's spare parts supply and technical and logistic support.

For the MTR390, which we jointly developed with Turbomeca and Rolls-Royce to power the Franco-German Tiger military helicopter, the development phase has been com-

pleted. MTU's stake in the program is the technologically sophisticated core engine including the combustor, high-pressure turbine and some accessories. After we received the production investment contract and long-lead item procurement was approved in 1998, we signed the procurement contract for the first 320-engine batch in January 2000.

We have teamed with Snecma, FiatAvio and ITP to provide the M138 turboprop to power the proposed A400M Western European airlifter. The requirements of the participating nations Germany, France, United Kingdom, Italy, Spain, Turkey and Belgium are for totally 288 of the four-engined transports.

Together with FiatAvio and General Electric we are also bidding for the engine to power the NH90 transport helicopters to be bought by the German services (Bundeswehr), our entry being the T700/T6E. Including spare engines, the engine contract will cover more than 500 powerplants. The T700/T6E has already been successfully tested on the prototype of the NH90 helicopter in Agusta, Italy.



# Human Resources

## More than 1,000 new jobs

*Change processes require dialog: The open dialog between the management and the employees is an elementary prerequisite for the succesful implementation of change.*



**Full order books in the aircraft and engine sectors allowed the creation of more than 1,000 new jobs in 1999. We will combat future fluctuations in manpower requirement through flexible personnel policy measures. In addition, we will secure our demand for high-qualified staff by continually developing our training programs. Our trainee and management staff development programs were a central priority in our human resources effort this year.**

Employees	99	98
DaimlerChrysler Aerospace Group	46,107	45,858
Germany	42,771	42,525
Foreign	3,336	3,333
Salaried	28,581	28,692
Hourly paid	15,250	14,937
Apprentices and Trainees	2,276	2,229
Commercial Aircraft	16,754	16,195
Helicopters	4,052	4,065
Military Aircraft	6,308	5,913
Space Infrastructure	2,098	1,990
Satellites	1,455	1,652
Defense and Civil Systems	8,266	9,109
Aero Engines	6,875	6,633
Headquarters	299	301

**MORE THAN 1,000 NEW HIRES.** The number of our employees rose to 46,107 in 1999, from 45,858 a year ago. Factoring in structural changes during fiscal 1999, such as the sale of Elekluft GmbH with its 720 staff in the Defense and Civil Systems business unit, new hires were in excess of 1000. The employment growth was driven primarily by the ramp-up in Airbus production, the production launching of the Eurofighter and an increase in the support services we provided in the Aero Engines business unit.

In contrast, the worse-than-expected decline in Defense and Civil Systems business compels us to adjust employment downward by several hundred jobs in that business unit in the planning period 2000 to 2002.

**COMPETITIVENESS ENSURED BY FLEXIBLE RESPONSE TO MANPOWER REQUIREMENTS.** To keep our company on its profitable course, we added only a moderate number of permanent jobs to cope with the rising workload and shall absorb future fluctuations with flexible employment practices. Fixed-term new hires, temporary contracts beyond normal working hours, and a scheme allowing workers to accumulate or work off plus or minus hours over longer periods are some of the tools that make us flexible and help us secure the jobs of our permanent staff.

Another flexible tool proved to be the part-time work scheme for older staff that we put in place the year before. It has found ready acceptance among the workforce. We were able to keep the accompanying losses in income and pension to a minimum, and some 700 employees have since signed such settlements. These give them the option of early retirement and younger staff opportunities for promotion.

Apart from these tools to flexibly control personnel capacities, it is also the company's partially performance-linked pay system that has become a cornerstone of our value-oriented style of corporate management. Now that we've established a variable-pay system for our executive staff, we're seeking to extend it also to other strata of the company's workforce. The system provides variable pay in the form of bonuses recognizing the degree to which agreed goals were achieved and of profit shares commensurate with the company's earnings.

**TRAINING AND JUNIOR STAFF DEVELOPMENT PUT DASA AMONG TOP EMPLOYERS.** Our positive business prospects for the years ahead had us hire even more apprentices and trainees than we did last year under our training initiative. The company was glad to accept practically all of last year's batch of young people into permanent employment once they completed their training periods.

Our training effort placed major emphasis on communication and team skills. Additionally, we launched an instructor qualifying program, improved our social pedagogic courses and pushed such innovative approaches as apprentice-run firms. Including new locations into our employee exchange program helped us improve the international orientation of our professional and vocational training effort.

Additionally our training effort is supplemented by an extensive young talent recruiting initiative. In 1999, we hired 800 university graduates fresh from school. That was 30% more than the year before, with the proportion of information technology graduates on the rise and by now representing one third of our new hires.





**COLLEGE STUDENTS PREFER DASA.** Dasa's active presence at national and international universities the special events it featured for interested students at the Le Bourget air show and its integrated online job application scheme put it in direct contact with the most eligible graduates. This proactive personnel marketing made German engineering students vote Dasa one of the country's three most attractive employers.

**QUALIFICATION OFFENSIVE IN ALL BUSINESS UNITS.** In 1999, all business units intensified and systematized their continued education and personnel development effort. A typical instance is the Space Academy of the company's Satellites and Space Infrastructure units.

We've launched further forward-looking qualification offensives in the Defense and Civil Systems and the Aero Engines business units. In our Commercial Aircraft and Military Aircraft units, preparations for further European integration of the industry have been a key concern of our qualification effort. We've systematically crafted development programs for the many young talents that joined our company these last few years. Our employees have participated an average 4 days a year in training events. This shows what a powerful issue lifelong learning is for a high-technology company like Dasa.

**TRAINEE AND MANAGEMENT PERSONNEL DEVELOPMENT EFFORT BOOSTED.** In the year under review we accelerated the past years' focused trainee and management development effort. In order to fill gaps that would be appearing in special management functions, we launched programs to recruit new blood and give them practical experience as a guideline for their future specific tasks. Our company's pronouncedly international orientation is also reflected in the national composition of our trainee and junior staff groups. In Dasa's central trainee group, for example, half of the young people are foreign nationals.

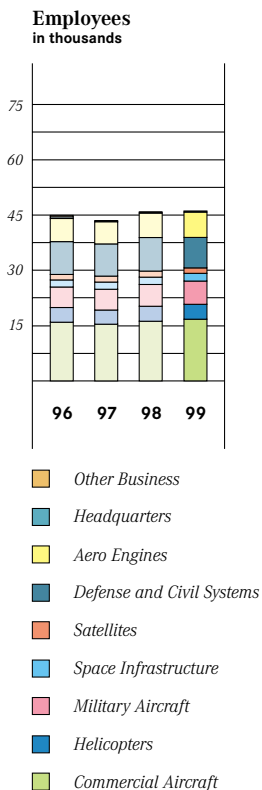
Under our management-personnel development planning effort, some 1,500 candidates for junior management positions have been screened in 1999 to identify our reservoir of talent to fill challenging tasks down the road. Depending on the findings of the assessment, the candidates are then leveraged through cross-business-unit job rotations and interviews, and special qualification programs. Our junior talent fostering effort is driven by the needs imposed by the international nature of Dasa's emerging challenges. This is why in 1999 we formed a joint venture pool for internationally deployable candidates.

**HUMAN RESOURCE AND SOCIAL CONTRIBUTION EXPENSES.** In fiscal 1999, personnel expenditures and benefits amounted to €3.0 billion, of which €2.3 billion went to wages and salaries, €402 million to social security contributions and €249 million for pensions/retirements and relief contributions.

In 1999, our staff was again privileged to buy up to 30 preferentially priced DaimlerChrysler employee shares per person, an option exercised by totally 13,135 employees, or 30.9% of the authorized group. The company's expenditures for the purpose amounted to €3.5 million.

Another substantial item in the Dasa group's social contribution account was company pensions. In 1999, 23,882 retired Dasa staff or their dependents received company pensions in the total amount of €111 million.

**A THANK-YOU TO OUR STAFF.** The Board wishes to express its thanks to all employees, the workers' delegates and the company officials in the various spokesmen committees for their trusting cooperation in a very successful year.



P R I N C I P A L C O M P A N I E S O F T H E  
D A I M L E R C H R Y S L E R A E R O S P A C E G R O U P

Amounts in millions of €	Owner- ship <sup>1)</sup> in %	Stock- holders' Equity <sup>2)</sup>	Revenues <sup>3)</sup>		Employees at Year-End	
			99	98	99	98
<b>Group Companies</b>						
DaimlerChrysler Aerospace AG, München		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
Elbe-Flugzeugwerke GmbH, Dresden	100.0	30	144	133	878	953
Aircabin GmbH, Laupheim	100.0	9	137	107	625	597
Dornier GmbH, Friedrichshafen <sup>7)</sup>	57.6	205	334	347	1,901	1,933
Dornier Satellitensysteme GmbH, Munich	100.0	17	673	683	1,436	1,507
Eurocopter Holding S.A., Paris/France <sup>5)</sup>	40.0	412	-	-	-	-
Eurocopter S.A., Marignane/France	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 <sup>6)</sup>	100.0	124	1,340	1,359	5,201	5,169
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	100.0	48	74	66	380	347
MTU Maintenance Hannover GmbH, Langenhagen	100.0	15	304	260	948	907
MTU Maintenance Canada Ltd., Richmond/Canada <sup>8)</sup>	70.0	18	40	0	346	0
Bayern-Chemie, Gesellschaft für flugchemische Antriebe mbH, Aschau/Inn <sup>4)</sup>	50.0	11	22	50	264	256
LFK-Lenkflugkörpersysteme GmbH, Munich	70.0	6	295	348	1,220	1,230
Nortel Dasa Network Systems GmbH & Co. KG, Friedrichshafen <sup>5)</sup>	50.0	95	528	351	1,107	953
TDA Armements S.A.S., Paris/France <sup>4)</sup> <sup>5)</sup>	50.0	19	89	86	520	596
TDW - Gesellschaft für verteidigungstechnische Wirksysteme mbH, Schrobenhausen	100.0	3	28	36	134	188
<b>Other affiliated companies</b>						
Airbus Industrie G.I.E., Toulouse/France	37.9	-	15,085	12,002	1,710	1,645

<sup>1)</sup> With reference to the respective parent company.

<sup>2)</sup> Stockholders equity and year-end profit according to national results;  
Stockholders equity converted with respective year-end exchange rates, profit with average yearly exchange rates.

<sup>3)</sup> Converted with averaged yearly exchange rates (local GAAP).

<sup>4)</sup> consolidated financial statement

<sup>5)</sup> proportionally consolidated

<sup>6)</sup> Ownership according to economic attribution

<sup>7)</sup> 87,5 % of the voting rights

<sup>8)</sup> For the periode from December 1 through December 31, 1998.

## Earnings again improved

- ◆ Operating profit increased by 17% to €730 million
- ◆ Revenues climbed to €9.2 (1998: 8.8) billion owing to booming Airbus deliveries and favorable US dollar exchange rate
- ◆ Incoming orders, at €9.9 billion, again exceeded revenues

**POSITIVE GLOBAL MARKET TREND.** After a growth of only 2% in 1998, caused by the financial turbulence in Asia and Latin America, in the current reporting year global air traffic volume rose by 5% thus recapturing its previous growth rate. At 3% (1998: -1%), air freight traffic picked up appreciably, too.

Against this generally favorable background, aircraft manufacturers in the West increased their worldwide deliveries by 15% to 914 aircraft in the 100-plus seat category. In contrast with this development, at 867 aircraft, orders worldwide in 1999 dropped appreciably from the whopping orders experienced in the previous year (1998: 1,222). The growth in air traffic also benefited the global helicopter market, which grew by 5%.

In the space business, global growth continued through 1999. The rise in sales volume, however, was sustained entirely by the growth in the commercial sector, where launch systems, earth observation and communications/multimedia satellites played an increasingly important role in the expanding business. Further growth opportunities for the European aerospace industry arose mainly in the military aircraft sector, especially from the Eurofighter program and the continuing strong modernization demand, as well as from the French-German Tiger helicopter program. Moreover, the consolidation trend in the industry continued to advance at a dynamic pace in Europe.

**EUROPEAN CONSOLIDATION.** The merger of British Aerospace and Marconi Electronic Systems to form Bae Systems in the current reporting year led to a national consolidation in England. This development of politically and economically desirable consolidations of the European Aerospace structures

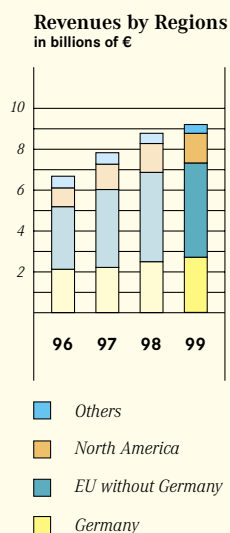
climaxed in the last quarter of 1999 with the announcement of the impending merger of Dasa, Aerospatiale Matra and Casa into European Aeronautic Defense and Space Company (EADS). This is the first merger of European aerospace giants into a single corporate entity which will put Europe's aerospace industry on a solid financial and competitive base.

**PECULIARITIES OF THE GERMAN MARKETPLACE.** In Germany, government spending policy resolutions and debates have dramatically aggravated the national budget situation. For Dasa, the strongest impact has been on its Space Infrastructure and Defense and Civil Systems units.

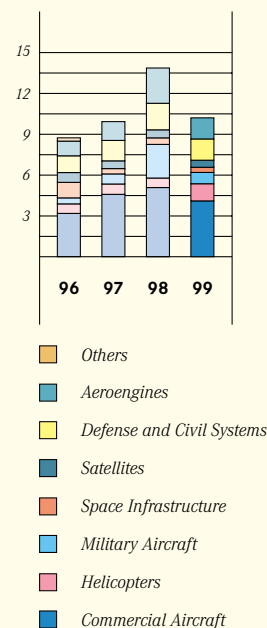
**FRIENDLY REVENUES TREND.** In 1999, Dasa increased its revenues by 5%, or €421 million, to €9.2 billion. A substantial part of the growth was in by the group's Commercial Aircraft unit which, aided by the rise of the dollar, achieved an above-average increase in revenues by 13% to €3.3 billion by boosting aircraft and aircraft module deliveries under the Airbus program. This pushed the business unit's share of Dasa's consolidated revenues from 33% to 36%. At €705 million, the revenues from the group's 40% stake in the helicopter business were up slightly by 4% from €680 million in the previous year.

Increased billing under support programs and for Airbus modules boosted Military Aircraft unit revenues by 13%, to €1,077 million. In our Satellites unit, revenues fell back to €458 million, from €645 million, owing to changed order structures under constant capacity utilization. The Space Infrastructure unit's revenues of €592 million slightly exceeded the €582 million in the previous year, with the Ariane and Columbus programs as the top earners.





**Incoming Orders by Business Units**  
in billions of €



Cuts in defense spending and corporate divestitures kept revenues at the Defense and Civil Systems unit flat at the prior year's €1.7 billion level. Adjusted for structural changes, however, revenues rose significantly by about 10%. The main contributor here was Nortel Dasa's growth spurt in telecommunication systems. The Aero Engines business unit's revenues, buoyed by the unit's booming maintenance business and a strong U.S. dollar, grew 5%, to €1.74 billion.

Foreign revenues rose by 5% to €6.5 billion, thus slightly raising the export rate to 71% from 70% in the previous year. Accelerated aircraft and module deliveries to Airbus Industrie swelled sales to EU customers by 12%, to €4.6 billion, contributing 50% to consolidated revenues versus 47% in the previous year. Our joint ventures in the aero engines sector turned North America, which accounts for 16% of consolidated revenues, into another focal point for our foreign operations. Revenues from military sales accounted for 31% of total revenues, unchanged from the previous year's level.

#### **INCOMING ORDERS SURPASSED OUR EXPECTATIONS**

**THROUGH AIRBUS SUCCESS.** At €9.9 (1998: €13.9) billion, Dasa had fewer incoming orders than last year, which saw an extraordinary wave of incoming orders and special influences. Thus, in the previous year, the Military Aircraft and Aero Engines business units recorded new orders for the production investment and first production tranche of the Eurofighter. Subsequently, in the current year, incoming orders by Military Aircraft fell predictably by 69%, to €827 million, and those in the AeroEngines business unit by 40% to €1.5 billion.

After the unusual boom in the commercial aircraft market in previous years, the Commercial Aircraft unit recorded declined incoming orders. However, thanks to our superior model mix and proactive marketing we achieved excellent results in aircraft orders which, at €4.1 billion, helped raise our market share to 55% (1998: 45%) or 476 (1998: 556) aircraft, thus significantly surpassing our expectations.

In addition, our helicopter business was awarded the contract for the series production of the first units of the French-German Tiger military helicopter which boosted our incoming orders by 70% to €1.3 billion.

The cuts in the defense budget had a noticeable effect. Incoming orders in the Defense and Civil Systems business unit slipped by 24%, to €1.6 billion due to canceled and deferred contracts. The Satellites unit registered a 14% drop in incoming orders, down to €523 million, caused by export restrictions and bulk orders in the previous year. The 28% decline of incoming orders in the Space Infrastructure unit, to €381 million, was due to the ordering surge the year before and a significant Ariane order being deferred to 2000.

**PROFITS CONTINUE TO IMPROVE.** In the current reporting year, the income before financial income, income taxes, and minority interests totaled €657 (1998: €585) million. This pushed DaimlerChrysler Aerospace's prior-year record operating profit up €107 million, to €730 million.

The continued rise in profits was largely achieved through Dasa's efforts to continuously boost its efficiency and achieve lasting improvements in its cost structures. Further positive influence was exercised by the record sales of the Commercial Aircraft business unit and the continued rise of U.S. dollar exchange rate.

**Reconciliation to  
Operating Profit**  
 Amounts in millions

	99   €	98   €
Income before financial income, income taxes and minority interests	<b>657</b>	<b>585</b>
+ Certain pension costs	<b>146</b>	<b>143</b>
+ Income from certain investments	<b>(28)</b>	<b>(62)</b>
+ Administrative charges	<b>(51)</b>	<b>(32)</b>
+ Other	<b>6</b>	<b>(11)</b>
Operating Profit	<b>730</b>	<b>623</b>

**EXTRA CHARGES IN FINANCIAL INCOME AND INCOME TAX.**

In the current reporting year, financial income fell by €361 million, to €-42 million versus €+319 million the year before. The total figure includes Airbus Industrie's income from investments, at €-62 (1998: €-95 million). In addition, net interest income fell €87 million, to €128 (1998: €215 million), owing to the lower liquidity resulting from the repayment of Airbus commitments to the state and falling interest rates. The drop in other financial income, to €-166 (€+107 million), was attributable to the strong U.S. dollar. Apart from the expenses for provisions for risks from forward exchange contracts and currency options, expenses were also incurred for the settlement of forward exchange contracts.

Income taxes, which totalled €550 (1998: €334 million), included €684 (€545 million) of charges for transfers of tax profits from the German subsidiaries of DaimlerChrysler under German corporate and trade tax legal agreements. The increase in tax expenditures over the previous year is attributable to the effects of the tax reform. The added tax expenses resulted from write-ups from shares in affiliated companies and participations that became necessary by the provisions of the new tax law.

Net income dropped to €60 (€547 million year ago) due mainly to the special tax effects and the drop in financial income.

**VALUE-BASED MANAGEMENT AT DASA.** To ensure value-based management and control across its various business units, DaimlerChrysler has crafted a set of uniform control tools to decentralize responsibility, create cross-unit visibility and foster capital market-oriented control of investments.

As in all other industrial businesses of the DaimlerChrysler group, Dasa uses return on net assets (RONA) as a major control tool. RONA is computed by relating operating profit to net assets. To obtain net assets, non-interest-bearing liabilities are deducted from assets. Dasa in 1999 again significantly overachieved its targeted hurdle rate of 15.5%.

**BALANCE SHEET TOTAL FELL TO € 11.9 BILLION.** In 1999, the DaimlerChrysler Aerospace group's balance sheet total slipped from €13.0 billion, to €11.9 billion. The drop resulted most notably from the roughly €1.2 billion decrease in cash and cash equivalents, to €4.2 billion, which consisted mainly of receivables from DaimlerChrysler AG, relating to the central finance and liquidity management.

Financial assets, which essentially include investments in affiliated companies (DaimlerChrysler Dieselantriebe GbR, Friedrichshafen, at €570 million), participations, investments in associated companies and loans, grew by a total of €155 million, to €1.1 billion, owing to additional investments.

The €157 million growth in inventories, to €765 million, is attributable to billing practices and was driven most notably by the Military Aircraft unit.

The €229 million rise in trade receivables, to €1.6 billion, was caused chiefly by an increase in deliveries made at the end of the year. Other receivables and other assets decreased to €1.6 (€1.7 billion year ago). This decrease is caused by partial write-down adjustments on repayments to the German government capitalized in previous years, relating to our Airbus deliveries.

**EQUITY RATIO AT 26%.** The group's net equity decreased by €837 million to €3.1 billion. This was due to the profit transfer from DaimlerChrysler Aerospace AG over DaimlerChrysler Luft- und Raumfahrt Holding (DCLRH) to DaimlerChrysler AG. The equity ratio dropped accordingly from 31% to 26%. The ratio between non-current assets and equity fell from 173% to 126%.

The increase in other accruals, from €2.6 billion to €2.8 billion, resulted chiefly from the rise in project- and personnel-related provisions. Accrued pension liabilities grew to €2.8 billion, from €2.7 billion.

The excess of deferred tax assets, at €1.0 billion, remained unchanged from the previous year.

**FURTHER GROWTH IN CASH FLOW FROM OPERATING ACTIVITIES.**

In the year under review, the cash flow from operating activities amounted to €808 (€658 million). Due to offsetting positive effects, the company could compensate payments for government funding for the Airbus program.

Expenditures for property, plant and equipment (€336 million) largely involved expansion investments and plant modernization and made up a vital factor influencing the cash flow from investing activities, which in 1999 amounted to €-488 (1998: €-373 million).

The cash flow from financing activities in an amount of €-1.581 million resulted mainly from profit transfers to DaimlerChrysler AG totalling €-1,691 million.

Cash and cash equivalent decreased by €1,261 million to €4,169 million, from €5,430 million in the previous year, mainly due to the significant increase in profit transfers.

**EARLY RECOGNITION AND CONSISTENT MANAGEMENT OF FUTURE RISKS.** In view of the global operations of the DaimlerChrysler Aerospace 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 control and monitoring systems. Among other things, these include the use 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 Law on Business Monitoring and Transparency (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 against certain threshold values agreed in the group's planning processes. This ensures that the Group's management recognizes significant risks in an early stage and can initiate appropriate measures to deal with them.

The Group does much of its business in foreign currencies and alleviates the revenue risks from exchange rate fluctuations through purchases in the respective foreign currencies and forward exchange contracts and currency options.

Additional uncertainties arise from further economic developments in those countries which are important for our businesses and in the future purchasing practices of government procurement agencies. Particularly government procurement practices may lead to the postponement or curtailment of contracts and the creation of associated cost risks. An additional risk consideration is that our attainment of project targets may also depend on our partners' performance and on price trends in hotly contested markets.

We are developing new products to sustain our future commercial achievements. But before we can harvest the opportunities residing in these new products, we necessarily must bear the latent technical implementation and funding risks generally associated with large-scale aerospace projects over longer periods.

**SUCCESSFUL YEAR 2000 CONVERSION.** We have successfully completed the Y2K conversion of our information and communication systems. All of our computer systems, technical facilities 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 disturbance 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.



## CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31,

in millions of €	Note	1999	1998	1997
Revenues	21	9,191	8,770	7,816
Cost of sales	4	(7,663)	(7,210)	(6,664)
<b>Gross margin</b>		1,528	1,560	1,152
Selling, administrative and other expenses	4	(643)	(872)	(1,110)
Research and development		(458)	(367)	(316)
Other income	5	230	264	388
<b>Income before financial income, income taxes and minority interests</b>		657	585	114
Financial income (expense), net	6	(42)	319	(250)
<b>Income (loss) before income taxes and minority interests</b>		615	904	(136)
Income taxes	7	(550)	(334)	150
Minority interests		(5)	(23)	(10)
<b>Net income</b>		60	547	4

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 BALANCE SHEETS

in millions of €	At December 31,		
	Note	1999	1998
<b>Assets</b>			
Intangible assets	8	77	71
Property, plant and equipment, net	8	1,349	1,314
Investments and long-term financial assets		1,072	917
<b>Fixed assets</b>		<b>2,498</b>	<b>2,302</b>
Inventories	9	765	608
Trade receivables	10	1,559	1,330
Other receivables and other assets	11	1,612	1,735
Securities		55	21
Cash and cash equivalents	12	4,169	5,430
<b>Non-fixed assets</b>		<b>8,160</b>	<b>9,124</b>
<b>Deferred taxes</b>	7	<b>1,252</b>	<b>1,516</b>
<b>Prepaid expenses</b>		<b>24</b>	<b>28</b>
<b>Total assets (thereof short-term 1999: €7,179; 1998: €8,224)</b>		<b>11,934</b>	<b>12,970</b>
<b>Liabilities and stockholders' equity</b>			
Capital stock		460	446
Additional paid-in capital		1,539	1,542
Retained earnings		1,138	1,990
Accumulated other comprehensive income		8	4
<b>Stockholders' equity</b>	13	<b>3,145</b>	<b>3,982</b>
<b>Minority interests</b>		<b>160</b>	<b>122</b>
<b>Accrued liabilities</b>	14	<b>5,629</b>	<b>5,234</b>
Financial liabilities	15	239	237
Trade liabilities	16	1,043	1,004
Other liabilities	17	1,480	1,848
<b>Liabilities</b>		<b>2,762</b>	<b>3,089</b>
<b>Deferred taxes</b>	7	<b>225</b>	<b>531</b>
<b>Deferred income</b>		<b>13</b>	<b>12</b>
<b>Total liabilities (thereof short-term 1999: €4,138; 1998: €4,426)</b>		<b>8,789</b>	<b>8,988</b>
<b>Total liabilities and stockholders' equity</b>		<b>11,934</b>	<b>12,970</b>

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions of €	Year ended December 31,		
	1999	1998	1997
Net income	60	547	4
Income applicable to minority interests	5	23	10
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	291	298	300
Deferred taxes	634	342	(183)
Change in financial instruments	5	(5)	240
Results on disposals of fixed assets/businesses	(37)	(163)	(32)
Change in accrued liabilities	440	(141)	(170)
Change in other operating assets and liabilities:			
- inventories, net	(157)	155	60
- trade receivables	(240)	(332)	28
- trade liabilities	40	135	203
- other assets and liabilities	(233)	(201)	(192)
<b>Cash provided by operating activities</b>	<b>808</b>	<b>658</b>	<b>268</b>
Purchase of fixed assets:			
- Purchases of property, plant and equipment	(336)	(326)	(254)
- Purchases of other fixed assets	(89)	(55)	(29)
Proceeds from disposals of fixed assets (without equipment on operating leases)	49	89	82
Payments for acquisitions of businesses	(111)	(187)	(53)
Proceeds from disposals of businesses	19	82	73
Acquisitions /disposals of securities and of similar financial assets	86	(36)	(14)
Loan	(102)	-	-
Change in cash from changes in consolidation	(4)	60	-
<b>Cash used for investing activities</b>	<b>(488)</b>	<b>(373)</b>	<b>(195)</b>
Change in financial liabilities	2	(9)	6
Dividends paid (including profit/loss transfer agreement)	(1,692)	(339)	(380)
Capital increase	104	-	-
Other	5	(37)	11
<b>Cash used for financing activities</b>	<b>(1,581)</b>	<b>(385)</b>	<b>(363)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	-	(3)	-
Net decrease in cash and cash equivalents	(1,261)	(103)	(290)
<b>Cash and cash equivalents</b>			
<b>At beginning of period</b>	<b>5,430</b>	<b>5,533</b>	<b>5,823</b>
<b>At end of period</b>	<b>4,169</b>	<b>5,430</b>	<b>5,533</b>

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 CHANGES IN STOCKHOLDERS' EQUITY

in millions of €	<i>Capital stock</i>	<i>Additional paid-in capital</i>	<i>Retained earnings<sup>1)</sup></i>	<i>Accumulated other com- prehensive income<sup>2)</sup></i>	<i>Total</i>
<b>Balance at January 1, 1997</b>	446	1,542	1,216	1	3,205
Dividends (including profit transfer) <sup>3)</sup>	-	-	87	-	87
Net income	-	-	4	-	4
Other comprehensive income	-	-	2	3	5
<b>Total comprehensive income</b>					9
Change in minority interests within DaimlerChrysler	-	-	11	-	11
<b>Balance at December 31, 1997</b>	446	1,542	1,320	4	3,312
Dividends (including profit transfer) <sup>3)</sup>	-	-	211	-	211
Net income	-	-	547	-	547
Other comprehensive loss	-	-	(4)	-	(4)
<b>Total comprehensive income</b>					543
Change in minority interests within DaimlerChrysler	-	-	(84)	-	(84)
<b>Balance at December 31, 1998</b>	446	1,542	1,990	4	3,982
Capital increase	-	-	104	-	104
Dividends (including profit transfer) <sup>3)</sup>	-	-	(1,007)	-	(1,007)
Net income	-	-	60	-	60
Other comprehensive income	-	-	5	4	9
<b>Total comprehensive income</b>					69
Change in minority interests within DaimlerChrysler	10	1	(14)	-	(3)
Other	4	(4)	-	-	-
<b>Balance at December 31, 1999</b>	460	1,539	1,138	8	3,145

<sup>1)</sup> Retained earnings also comprises the pro rata portion of stockholders' equity of DaimlerChrysler subsidiaries, which are under the managerial control of DaimlerChrysler Aerospace.

<sup>2)</sup> Accumulated other comprehensive income principally includes differences from currency translation.

<sup>3)</sup> includes tax benefit/burden from DaimlerChrysler AG

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

## CONSOLIDATED FIXED ASSETS SCHEDULE

in millions of €	Acquisition or Manufacturing Costs						Balance at December 31, 1999
	Balance at January 1, 1999	Currency change	Acquisitions/ disposals of businesses	Additions	Reclassi- fications	Disposals	
Other intangible assets	66	-	-	23	3	12	80
Goodwill	193	-	2	-	-	4	191
<b>Intangible assets</b>	<b>259</b>	<b>-</b>	<b>2</b>	<b>23</b>	<b>3</b>	<b>16</b>	<b>271</b>
Land, leasehold improvements and buildings including buildings on land owned by others	2,355	-	(22)	29	23	29	2,356
Technical equipment and machinery	1,213	1	(8)	63	28	30	1,267
Other equipment, factory and office equipment	1,521	-	(24)	126	34	132	1,525
Advance payments relating to plant and equipment and construction in progress	121	-	-	118	(88)	2	149
<b>Property, plant and equipment</b>	<b>5,210</b>	<b>1</b>	<b>(54)</b>	<b>336</b>	<b>(3)</b>	<b>193</b>	<b>5,297</b>
Investments in affiliated companies	751	-	1	35	(3)	1	783
Loans to affiliated companies	7	-	(2)	-	-	1	4
Investments in associated companies	82	5	-	47	10	2	142
Investments in related companies	141	-	-	35	(7)	3	166
Loans to associated and related companies	53	-	-	12	-	-	65
Other loans	53	-	-	54	-	18	89
<b>Investments and long-term financial assets</b>	<b>1,087</b>	<b>5</b>	<b>(1)</b>	<b>183</b>	<b>-</b>	<b>25</b>	<b>1,249</b>
<b>Consolidated fixed assets</b>	<b>6,556</b>	<b>6</b>	<b>(53)</b>	<b>542</b>	<b>-</b>	<b>234</b>	<b>6,817</b>

<sup>1)</sup> Currency translation changes with period end rates.

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.

Balance at January 1, 1999	Depreciation/Amortization					Book Value <sup>1)</sup>			
	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	
44	-	-	16	1	12	49	31	22	Other intangible assets
144	-	-	5	-	4	145	46	49	Goodwill
188	-	-	21	1	16	194	77	71	<b>Intangible assets</b>
1,539	-	(10)	61	(1)	20	1,569	787	816	Land, leasehold improvements and buildings including buildings on land owned by others
1,079	-	(5)	66	-	30	1,110	157	134	Technical equipment and machinery
1,278	-	(23)	142	-	128	1,269	256	243	Other equipment, factory and office equipment
-	-	-	-	-	-	-	149	121	Advance payments relating to plant and equipment and construction in progress
3,896	-	(38)	269	(1)	178	3,948	1,349	1,314	<b>Property, plant and equipment</b>
84	-	8	-	(3)	-	89	694	667	Investments in affiliated companies
3	-	-	-	-	-	3	1	4	Loans to affiliated companies
-	-	-	1	-	-	1	141	82	Investments in associated companies
39	-	-	-	3	2	40	126	102	Investments in related companies
38	-	-	-	-	-	38	27	15	Loans to associated and related companies
6	-	-	-	-	-	6	83	47	Other loans
170	-	8	1	-	2	177	1,072	917	<b>Investments and long-term financial assets</b>
4,254	-	(30)	291	-	196	4,319	2,498	2,302	<b>Consolidated fixed assets</b>



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General* – The consolidated financial statements of DaimlerChrysler Aerospace Aktiengesellschaft and subsidiaries (“Dasa” or the “Group”) have been prepared in all material respects in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”); one of the exceptions is, that the Group has accounted for certain joint ventures in accordance with the proportionate method of consolidation. In accordance with U.S. GAAP, joint ventures are generally required to be accounted for using the equity method of accounting. The consolidated financial statements and notes thereto do not contain all of the information required under U.S. GAAP. Therefore they should be considered in the context of their incorporation in the consolidated financial statements of DaimlerChrysler AG (“DCAG”), the Group’s principal shareholder. All amounts herein are shown in millions of euro (“€”).

*Consolidation* – The consolidated financial statements include all of the material subsidiaries under the legal or managerial control of DaimlerChrysler Aerospace AG. Significant investments in which Dasa has a 20% to 50% ownership (“associated companies”) are generally accounted for using the equity method. For investments in material joint ventures, Dasa uses the proportionate method of consolidation (see Note 2). 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. Differences carried as liabilities are subtracted from property, plant and equipment.

The effects of intercompany transactions have been eliminated. Certain prior year balances have been reclassified to conform with the Group’s current year presentation.

*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.

Prior to December 31, 1998, Dasa prepared and reported its consolidated financial statements in Deutsche Marks (“DM”). With the introduction of the euro on January 1, 1999, Dasa 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 = DM 1.95583. Dasa’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.

*Revenue Recognition* – Revenues are realized upon the transfer of risk or the rendering of a service. For long-term projects, revenues are realized according to the percentage-of-completion method as contractually agreed-upon milestones are reached or the work progresses. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed for possible losses at each reporting period and provisions for estimated losses on contracts are recorded when identified.

Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Contract penalties are charged to expense in the period it becomes probable that the Group will be subject to the penalties.

*Product-Related Expenses* – Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for warranties are made at the time the related sale is recorded. Research and development funded by the Group is expensed as incurred.

*Income Taxes* – Dasa has entered into a profit and loss sharing agreement with DCAG under which the Group is required to remit its pretax profits to DCAG and DCAG is required to purchase its pretax losses. Both the pretax profits and losses subject to the profit and loss sharing agreement are calculated according to the German commercial code (Handelsbilanz). The profits or losses of Dasa are, accordingly, included in the combined income tax return of DaimlerChrysler AG. For purposes of these consolidated financial statements, the Group’s income tax provisions have been prepared as if it was a separate taxable entity.

Deferred income taxes are recorded in the consolidated financial statements of Dasa in accordance with Statement of Financial Accounting Standards (“SFAS”) 109, “Accounting for Income Taxes.” Deferred tax assets and liabilities reflect lower or higher future tax liabilities that result for certain assets and liabilities from temporary valuation differences between their carrying amounts in the U.S. GAAP balance sheet and the tax balance sheet. In addition, deferred taxes are recorded for losses carried forward from companies which are not included in the filing of the combined tax return of DCAG. For losses carried forward in connection with the group of companies that file a combined tax return with DCAG, deferred tax assets are recorded by DCAG. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Because deferred taxes assets anticipate potential future tax benefits, they are recorded in the consolidated financial statements of Dasa only when the likelihood that the tax benefits will be realized is more than 50%. A valuation allowance is recorded to reduce deferred tax assets to amounts which will more likely than not be realized.

*Intangible Assets* – Purchased intangible assets, other than goodwill, are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 10 years) on a straight line basis. Goodwill derived from acquisitions and consolidation is capitalized and amortized over 5 to 20 years. The Group periodically assesses the recoverability of its goodwill based upon projected future cash flows.

*Property, Plant and Equipment* – Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognized using the declining balance method until the straight-line method yields larger expenses. The costs of internally produced equipment and facilities include all direct costs and allocable manufacturing overhead. The following useful lives are assumed: buildings – 10 to 50 years; site improvements – 8 to 20 years; technical equipment and machinery – 3 to 20 years; and other equipment, factory and office equipment – 2 to 10 years.

*Impairment of 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.

*Leasing* – The Group is a lessee of property, plant and equipment. 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.

*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 notes, the portion of assets and liabilities to be realized and settled in excess of one year has been disclosed.

*Inventories* – Inventories are valued at the lower of acquisition or manufacturing cost or market price. Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

*Securities* – Securities are accounted for at fair values, if readily determinable. 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.

*Cash and cash equivalents* – Cash consists of cash on hand, cash in bank, checks, and fixed deposits having a maturity of three months or less. The Group considers amounts due from DCAG's cash management group as cash equivalents.

*Financial Instruments* – Dasa uses derivative financial instruments only for hedging purposes. Financial instruments, including derivatives (currency futures and currency options), 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 currency risks of identifiable assets, liabilities, or firm commitments, do not affect income until the underlying transaction is realized (see Note 20d).

*Accrued Liabilities* – The valuation of pension liabilities is based upon the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions." An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. The effects of accrued liabilities relating to personnel and social costs are valued at their net present value where appropriate.

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

*New Accounting Pronouncements* – 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. Dasa 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.

## 2. SCOPE OF CONSOLIDATION

*Scope of Consolidation* - In 1999 Dasa comprises 23 foreign and domestic subsidiaries (1998: 21) and 13 joint venture companies (1998: 13); the latter are accounted for on a pro rata basis. During 1999, 6 subsidiaries were included in the consolidated financial statements for the first time and a total of 4 subsidiaries left the consolidated group. Significant effects of changes in the consolidated group on the consolidated balance sheets and the consolidated statements of income are explained further in the notes to the consolidated financial statements. A total of 71 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: 69). The effect of such non-consolidated subsidiaries for all years presented to consolidated assets, revenues and net income of Dasa was less than 2%. In addition, 2 (1998: 3) companies administering pension funds whose assets are subject to restrictions have not been included in the consolidated financial statements. The consolidated financial statements include 64 associated companies (1998: 58). At December 31, 1999, 7 (1998: 6) associated companies are accounted for in the consolidated financial statements using the equity method of accounting. The remaining associated companies are accounted for at cost and are 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.

*Investments in Joint Ventures* - The most material joint venture is the Eurocopter Group consisting of Eurocopter Holding S.A. and its 6 (1998: 6) subsidiaries, in which Dasa holds a 40-percent interest. The second partner of this joint venture operating in the helicopter business is Aerospatiale Matra. In the business unit Defence and Civil Systems Dasa holds a 50-percent interest in Nortel Dasa Network Systems, a joint venture with Northern Telecom which is engaged in the development and production of telecommunication networks. Furthermore Dasa has 50% investments in TDA-Armements S.A.S and in Bayern Chemie GmbH, both in cooperation with Thomson-CSF. On January 1, 1998 Dasa sold its stake in Zeiss-Eltro Optronik GmbH, which formerly was a joint venture with Carl Zeiss, Oberkochen.

Dasa reports its 40% interest of the assets and liabilities, revenues and expenses and cash flows in Eurocopter and its 50% interest in 3 other joint ventures by using the proportionate method of consolidation. The Group believes that such method of financial statement presentation, which is permitted by the regulations of the Seventh Directive of the European Community, better illustrates its consolidated financial position, results of operations and cash flows to the reader of the Group's consolidated financial statements.

Under U.S. GAAP, Dasa's investments in the joint ventures were 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 Dasa. Under the equity method of accounting, Dasa's net investments in joint ventures would be included within investments in the balance sheet and its share of the net income or loss of the joint ventures together with the amortization of goodwill would be reported as a net amount in financial income, net in the Group's statement of income. Additionally, Eurocopter and the other joint ventures would impact the Group's reported cash flows only to the extent the Group received cash dividends.

Summarized consolidated financial information of the joint ventures follows. The amounts represent those used in the Dasa consolidation.

### Balance sheet information

	At December 31,	
	1999	1998
Fixed assets	138	138
Non-fixed assets	895	787
<b>Total assets</b>	<b>1,033</b>	<b>925</b>
Stockholders' equity	231	206
Minority interests	59	55
Accrued liabilities	319	254
Liabilities	424	410
<b>Total liabilities and stockholders' equity</b>	<b>1,033</b>	<b>925</b>

### Statement of income information

	Year ended December 31,		
	1999	1998	1997
Revenues	1,033	921	861
Income before financial income and income taxes	45	36	-
<b>Net income (loss)</b>	<b>25</b>	<b>31</b>	<b>(3)</b>



## Cash flow information

Year ended December 31,

	1999	1998	1997
Cash flows from:			
Operating activities	117	(14)	161
Investing activities	(15)	(9)	(40)
Financing activities	(14)	2	(22)
Change in cash	88	(21)	99
Cash at beginning of period	63	84	36
Cash at end of period	151	63	135

### 3. ACQUISITIONS AND DISPOSITIONS

In 1998, Dasa acquired the German defense electronics activities of Siemens AG (SI Sicherungstechnik GmbH & CoKG). The acquisition was accounted for under the purchase method of accounting and as such all assets acquired and liabilities assumed were recorded at fair value. The excess of the purchase price over the fair value of net assets acquired of €48 was capitalized as goodwill and is being amortized over 15 years, the expected period of benefit.

In 1998, the Group sold 30% of its interests in LFK-Lenkflugkörpersysteme GmbH to Matra BAe Dynamics, resulting in a pretax gain of €74. Dasa also disposed of 100% of its interests in CMS Inc. to Primex Technologies Inc., resulting in a pretax gain of €58.

## NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

### 4. FUNCTIONAL COSTS AND OTHER EXPENSES

Cost of sales and other functional costs include cost of materials as follows:

	<i>Year ended December 31,</i>		
	1999	1998	1997
Cost of raw materials, supplies and resale products	2,623	2,609	1,909
Cost of purchased services	1,937	1,950	1,986
<b>Expenses for materials</b>	<b>4,560</b>	<b>4,559</b>	<b>3,895</b>

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

	<i>Year ended December 31,</i>		
	1999	1998	1997
Selling expenses	310	333	285
Administration expenses	298	269	264
Other expenses	35	270	561
<b>Selling, administrative and other expenses</b>	<b>643</b>	<b>872</b>	<b>1,110</b>

Cost of sales and functional costs include other taxes of €14 (1998: €9; 1997: €34).

Other expenses primarily include charges not allocated to cost of sales, selling or administrative expenses. In 1998, expenses amounting to €229 (1997: €369) related to settlement payments for commitments to the Federal Republic of Germany were recorded (see Note 19).

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

	<i>Year ended December 31,</i>		
	1999	1998	1997
Wages and salaries	2,299	2,196	2,034
Social levies	402	348	348
Net periodic pensions cost (see Note 14 a)	220	219	203
<b>Personnel expenses</b>	<b>2,921</b>	<b>2,763</b>	<b>2,585</b>

Number of employees of consolidated subsidiaries (annual average):

	<i>Year ended December 31,</i>		
	1999	1998	1997
Hourly employees	13,461	12,769	12,001
Salaried employees	25,664	25,532	25,030
Trainees/apprentices	1,943	1,846	1,770
<b>Employees (annual average)</b>	<b>41,068</b>	<b>40,147</b>	<b>38,801</b>

In 1999, 12,019 persons (1998: 11,698 persons; 1997: 12,080 persons) 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 Aerospace AG amounted to €5, and the remuneration paid to the members of the Supervisory Board of DaimlerChrysler Aerospace AG totaled €0.2.

### 5. OTHER INCOME

Other income includes gains on sales of property, plant and equipment (€21, €31 and €32 in 1999, 1998 and 1997, respectively), gains on sales of companies (€30 and €132 in 1999 and 1998, respectively), rental income (€36, €31 and €10 in 1999, 1998 and 1997, respectively), and reductions in certain accruals (€16, €48 and €25 in 1999, 1998 and 1997, respectively). In 1999, other income also includes recoveries of previously written-off receivables amounting to €61.

### 6. FINANCIAL INCOME, NET

	<i>Year ended December 31,</i>		
	1999	1998	1997
Income (loss) from investments thereof from affiliated companies €4 (1998: €3; 1997: €(15))	16	13	(6)
Gains, net from disposals of investments and shares in affiliated and associated companies	20	22	20
Write-down of investments and shares in affiliated companies	-	(10)	(9)
Income (loss) from companies included at equity	(40)	(28)	131
<b>Income (loss) from investments, net</b>	<b>(4)</b>	<b>(3)</b>	<b>136</b>
Other interest and similar income thereof from affiliated companies €166 (1998: €250; 1997: €229)	196	287	256
Interest and similar expenses	(68)	(72)	(67)
<b>Interest income, net</b>	<b>128</b>	<b>215</b>	<b>189</b>
Realized and unrealized gains (losses) on financial instruments	(169)	116	(592)
Other, net	3	(9)	17
<b>Other financial income (loss), net</b>	<b>(166)</b>	<b>107</b>	<b>(575)</b>
<b>Financial income (loss), net</b>	<b>(42)</b>	<b>319</b>	<b>(250)</b>

## 7. INCOME TAXES

Income (loss) before income taxes and minority interests amounted to €615 (1998: €904; 1997: €(136)), of which €585 was generated by the Group's operations in Germany (1998: €875; 1997: €(140)).

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

	Year ended December 31,		
	1999	1998	1997
Current taxes			
Germany	(98)	(11)	29
Foreign	14	3	4
Deferred taxes			
Germany	633	347	(183)
Foreign	1	(5)	-
<b>Income taxes</b>	<b>550</b>	<b>334</b>	<b>(150)</b>

In 1999, the tax laws in Germany were changed, including a reduction in the retained corporate income tax rate from 45% to 40% and a broadening of the tax base. The effects of the changes in the German tax laws were recognized as a charge of €250 in the consolidated statement of income in 1999.

German corporate tax law applies a different tax rate for undistributed and distributed earnings. Retained corporate income is initially subject to a federal corporate tax rate of 40% (1998 and 1997: 45%) plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on the federal corporate taxes payable. Including the impact of the surcharge, the effective federal corporate tax rate amounts to 42.2% (1998: 47.475%; 1997: 48.375%).

Upon distribution of retained earnings to stockholders, the corporate income tax rate on the earnings is adjusted to 30%, plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on the distribution corporate tax of 30%, for a total of 31.65% (1998: 31.65%; 1997: 32.25%), by means of a refund on 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 to the amount of federal income taxes previously paid by the corporation.

For German companies, the deferred taxes for 1999 and 1998 were calculated using effective corporate income tax rates of 42.2% and 47.475%, respectively, plus the after federal tax benefit rate for trade tax of 9.3% and 8.525%, respectively. The effect of the tax rate reductions on year-end 1999 and 1997 deferred tax balances are reflected in the reconciliations of 1999 and 1997 presented below.

A reconciliation of income taxes determined using the German corporate tax rate of 42.2% plus the after federal tax benefit rate for trade taxes of 9.3% 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 (provision)/benefit for income taxes	(317)	(506)	78
Effect of changes in German tax laws	(250)	-	(3)
Tax refund (additional-payment) for prior years	(15)	21	(1)
Equity-evaluation	(2)	27	32
Permanent differences on consolidation items	10	44	6
Changes in valuation allowances on deferred taxes	5	26	54
Permanent differences on investments	10	31	(18)
Other	9	23	2
<b>Reported tax (provision)/benefit</b>	<b>(550)</b>	<b>(334)</b>	<b>150</b>

Deferred income tax assets and liabilities are summarized as follows:

	December 31,	
	1999	1998
Intangible assets	25	33
Property, plant and equipment	96	109
Investments and long-term financial assets	53	47
Inventories	497	540
Net operating loss and tax credit carryforwards	142	284
Retirement plans	572	605
Other accrued liabilities	689	599
Liabilities	81	124
Deferred income	1	3
<b>Total</b>	<b>2,156</b>	<b>2,344</b>
Valuation allowances	(50)	(82)
<b>Deferred tax assets</b>	<b>2,106</b>	<b>2,262</b>
Receivables	1,064	1,271
Other	15	6
<b>Deferred tax liabilities</b>	<b>1,079</b>	<b>1,277</b>
<b>Deferred tax assets, net</b>	<b>1,027</b>	<b>985</b>

(in millions of €)



At December 31, 1999, the Group had corporate tax net operating losses ("NOLs") and credit carryforwards amounting to €323 (1998: €600) and German trade tax NOLs amounting to €91 (1998: €56). The corporate tax NOLs and credit carryforwards mainly relate to losses of foreign and domestic non-Organschaft companies and are partly limited in their use to the Group. The amount of the Group's deferred tax valuation allowances is based upon management's belief that it is more likely than not that not all of the deferred tax assets will be realized. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

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

	<i>December 31, 1999</i>		<i>December 31, 1998</i>	
	<i>thereof</i>		<i>thereof</i>	
	<i>Total</i>	<i>non-current</i>	<i>Total</i>	<i>non-current</i>
Deferred tax assets	<b>1,252</b>	<b>1,225</b>	<b>1,516</b>	<b>1,443</b>
Deferred tax liabilities	<b>(225)</b>	<b>(1)</b>	<b>(531)</b>	<b>(6)</b>
<b>Deferred tax assets, net</b>	<b>1,027</b>	<b>1,224</b>	<b>985</b>	<b>1,437</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

### 8. 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. Property, plant and equipment include buildings, technical equipment and other equipment capitalized under capital lease agreements of €50 (1998: €53; 1997: €56). Depreciation expense on assets under capital lease arrangements was €3 (1998: €3; 1997: €1).

### 9. INVENTORIES

	<i>At December 31,</i>	
	1999	1998
Raw materials and manufacturing supplies	340	346
Work in progress thereof relating to long-term contracts and programs in process €43 (1998: €143)	1,711	1,511
Finished goods, parts and products held for resale	132	114
Advance payments to suppliers	289	197
	2,472	2,168
Less: Advance payments received thereof relating to long-term contracts and programs in process €189 (1998: €291)	(1,707)	(1,560)
<b>Inventories</b>	<b>765</b>	<b>608</b>

### 10. TRADE RECEIVABLES

	<i>At December 31,</i>	
	1999	1998
Receivables from sales of goods and services	1,261	1,149
Long-term contracts and programs, unbilled, net of advance payments received	377	266
	1,638	1,415
Allowance for doubtful accounts	(79)	(85)
<b>Trade receivables</b>	<b>1,559</b>	<b>1,330</b>

As of December 31, 1999, €217 of the trade receivables mature after more than one year (1998: €63).

### 11. OTHER RECEIVABLES AND OTHER ASSETS

	<i>At December 31,</i>	
	1999	1998
Receivables from affiliated companies	157	44
Receivables from related companies <sup>1)</sup>	333	294
Other assets	1,158	1,421
	1,648	1,759
Allowance for doubtful accounts	(36)	(24)
<b>Other receivables and other assets</b>	<b>1,612</b>	<b>1,735</b>

<sup>1)</sup> Related companies include entities which have a significant ownership in Dasa or entities in which the Group holds a significant investment.

As of December 31, 1999, €811 of the other receivables and other assets mature after more than one year (1998: €938). Other assets at December 31, 1999, include €869 (1998: €962) of deferred amounts related to settlement payments to the Federal Republic of Germany by DaimlerChrysler Aerospace Airbus GmbH.

### 12. CASH FLOW INFORMATION

The following represents supplemental information with respect to cash flows from operating activities:

	<i>Year ended December 31,</i>		
	1999	1998	1997
Interest paid	47	8	26
Income taxes paid	113	65	24

Cash and cash equivalents include €3,921 (1998: €5,302) of liquid funds invested in DaimlerChrysler's cash management group.

**13. STOCKHOLDERS' EQUITY**

The capital stock of the Group is €460, consisting of 17,848,001 shares. Retained earnings include the pro rata portion of equity of certain DaimlerChrysler companies under the managerial control of Dasa. In 1999 and 1998 such companies were Dasa Globalstar Limited Partner Inc. and 0.01% (1998: 3.19%) of the shares of MTU Motoren- und Turbinen-Union München GmbH.

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 ("DCLRH") or ordinary shares of DCAG and such options are exercisable at any time.

**14. ACCRUED LIABILITIES**

Accrued liabilities are comprised of the following:

	<i>At December 31,</i>			
	<b>1999</b>		<b>1998</b>	
	<i>Total</i>	<i>thereof &gt; 1 year</i>	<i>Total</i>	<i>thereof &gt; 1 year</i>
Retirement plans (see Note 14 a) and similar obligations	<b>2,781</b>	<b>2,687</b>	<b>2,653</b>	<b>2,584</b>
Income and other taxes	<b>78</b>	<b>39</b>	<b>44</b>	<b>2</b>
Other accrued liabilities (see Note 14 b)	<b>2,770</b>	<b>1,540</b>	<b>2,537</b>	<b>1,616</b>
<b>Accrued liabilities</b>	<b>5,629</b>	<b>4,266</b>	<b>5,234</b>	<b>4,202</b>

**a) Retirement 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 on an average of the last three years of employment while others are fixed plans depending on ranking (both salary level and position).

The following provides information with respect to the Group's pension plans, located principally in Germany. Since 1998 Dasa has used the rates of the new Heubeck mortality tables for the valuation of the German pension liabilities.

	<i>At December 31,</i>	
	<b>1999</b>	<b>1998</b>
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	<b>3,299</b>	<b>2,881</b>
Service cost	<b>74</b>	<b>76</b>
Interest cost	<b>192</b>	<b>186</b>
Plan amendments	<b>-</b>	<b>7</b>
Actuarial (gains) losses	<b>(43)</b>	<b>190</b>
Acquisitions and other	<b>(36)</b>	<b>60</b>
Benefits paid	<b>(111)</b>	<b>(101)</b>
Projected benefit obligations at end of year	<b>3,375</b>	<b>3,299</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>612</b>	<b>576</b>
Actual return on plan assets	<b>27</b>	<b>70</b>
Benefits paid	<b>(36)</b>	<b>(34)</b>
Fair value of plan assets at end of year	<b>603</b>	<b>612</b>

At December 31, 1999, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing from all pension trust and relief funds are solely used to pay pension benefits.

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 <sup>1)</sup>	2,772	2,687
Unrecognized actuarial net losses	(5)	(28)
Unrecognized prior service cost	(6)	(6)
<b>Net amount recognized</b>	<b>2,761</b>	<b>2,653</b>

<sup>1)</sup> Difference between the projected benefit obligations and the fair value of plan assets.

The weighted-average assumptions used in calculating the actuarial values of the retirement plans were as follows:

Weighted-average assumptions as of December 31:	1999 in %	1998 in %	1997 in %
Discount rate	6.0	6.0	6.5
Expected return on plan assets	7.7	7.7	7.7
Rate of compensation increase	2.75	3.0	3.0

The components of the net periodic pension cost were as follows:

	1999	1998	1997
Service cost	74	76	71
Interest cost	192	186	175
Expected return on plan assets	(46)	(43)	(43)
<b>Net periodic pension cost</b>	<b>220</b>	<b>219</b>	<b>203</b>

#### b) Other accrued liabilities

Other accrued liabilities consisted of the following:

	At December 31,	
	1999	1998
Accrued warranty costs and price risks	297	313
Accrued losses on uncompleted contracts	644	548
Restructuring	120	106
Accrued personnel and social costs	176	164
Other	1,533	1,406
<b>Other accrued liabilities</b>	<b>2,770</b>	<b>2,537</b>

Accruals for restructuring comprise certain employee termination benefits and costs which are directly associated with reductions in capacities.

The changes in these provisions are summarized as follows:

	Termination benefits	Exit costs	Total liabilities
<b>Balance at January 1, 1997</b>	<b>256</b>	<b>42</b>	<b>298</b>
Utilizations and transfers	(129)	(6)	(135)
Reductions	(20)	(5)	(25)
Additions	20	-	20
<b>Balance at December 31, 1997</b>	<b>127</b>	<b>31</b>	<b>158</b>
Utilizations and transfers	(52)	(9)	(61)
Reductions	(4)	(10)	(14)
Additions	20	3	23
<b>Balance at December 31, 1998</b>	<b>91</b>	<b>15</b>	<b>106</b>
Utilizations and transfers	(23)	(2)	(25)
Reductions	(6)	-	(6)
Additions	41	4	45
<b>Balance at December 31, 1999</b>	<b>103</b>	<b>17</b>	<b>120</b>

In connection with the Group's restructuring, provisions were recorded for termination benefits of €41 (1998: €20; 1997: €20). In connection with these restructuring efforts, the Group effected workforce reductions of 308 employees (1998: 983; 1997: 1,180) and paid termination benefits of €43 (1998: €126; 1997: €152), of which €43 (1998: €124; 1997: €152) were charged against previously established accrued liabilities and other liabilities. At December 31, 1999 the Group had liabilities for estimated future terminations for approximately 698 employees.



**15. FINANCIAL LIABILITIES**

At December 31,  
1999                      1998

Liabilities to financial institutions	24	28
Liabilities to affiliated companies	20	13
Liabilities from capital lease and residual value guarantees	6	4
Short-term financial liabilities (due within one year)	50	45
Liabilities to financial institutions thereof due in more than five years: €14 (1998: €15)	14	25
Loans, other financial liabilities thereof due in more than five years: €13	121	108
Liabilities from capital lease and residual value guarantees thereof due in more than five years: €26 (1998: €42)	54	59
Long-term financial liabilities	189	192
<b>Financial liabilities</b>	<b>239</b>	<b>237</b>

Weighted average interest rates for liabilities to financial institutions are 6.2% (short-term) and 5.6% (long-term), respectively, at December 31, 1999. Liabilities to financial institutions mature in 2007 at the latest.

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

	2000	2001	2002	2003	2004	thereafter
Financial liabilities	50	6	114	5	11	53

**16. TRADE LIABILITIES**

	At December 31, 1999			At December 31, 1998		
	<i>thereof</i>	<i>thereof</i>		<i>thereof</i>	<i>thereof</i>	
	<i>Total</i>	<i>&gt; 1 year</i>	<i>&gt; 5 years</i>	<i>Total</i>	<i>&gt; 1 year</i>	<i>&gt; 5 years</i>

Accounts payable	875	3	1	849	11	1
Accrued liabilities from long-term contracts and programs	168	15	-	155	-	-
<b>Trade liabilities</b>	<b>1,043</b>	<b>18</b>	<b>1</b>	<b>1,004</b>	<b>11</b>	<b>1</b>

## 17. OTHER LIABILITIES

	At December 31, 1999			At December 31, 1998		
	Total	thereof > 1 year	thereof > 5 years	Total	thereof > 1 year	thereof > 5 years
Liabilities to affiliated companies	48	-	-	30	-	-
Liabilities to related companies	1,058	4	-	556	20	11
Other liabilities	374	8	3	1,262	8	2
<b>Other liabilities</b>	<b>1,480</b>	<b>12</b>	<b>3</b>	<b>1,848</b>	<b>28</b>	<b>13</b>

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

Other liabilities at December 31, 1998, include the repayment-obligations of €895 to the Federal Republic of Germany, which arise

from the redemption of general agreement commitments by DaimlerChrysler Aerospace Airbus GmbH. As of December 31, 1999 other liabilities include tax liabilities of €98 (1998: €52), and social benefits of €78 (1998: €106).

## OTHER NOTES

### 18. LITIGATION AND CLAIMS

Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group. 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.

### 19. COMMITMENTS AND CONTINGENCIES

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

	At December 31,	
	1999	1998
Guarantees	918	751
Contractual guarantees	91	157
Pledges of indebtedness of others	13	7
<b>Total</b>	<b>1,022</b>	<b>915</b>

(in millions of €)

Contingent liabilities principally represent guarantees of indebtedness of non-consolidated affiliated companies and third parties, contractual guarantees and commitments by Group companies as to contractual performance by joint venture companies.

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 €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") and thereby indirectly acquired DA (then known as Deutsche Airbus GmbH) which was and continues to be the German participant in Airbus Industrie. In connection with the acquisition the Federal Republic of Germany undertook responsibility for certain financial obligations of MBB and DA 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 DA 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, DA settled the foregoing 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 support which was not connected with development costs, while the 1997 settlement related 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.

Total rentals under operating leases, charged as an expense in the statement of income, amounted to €60 (1998: €67; 1997: €59). Future 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:

	<i>Operating leases</i>
2000	60
2001	44
2002	39
2003	21
2004	21
thereafter	43

## 20. INFORMATION ABOUT FINANCIAL INSTRUMENTS

As a consequence of the global nature of Dasa's businesses, its operations and its reported financial results and cash flows are exposed to the risks associated with fluctuations in foreign currency exchange rates principally between the euro and the U.S. dollar. The Group's businesses are exposed to transaction risk whenever revenues are denominated in a currency other than the currency in which the costs relating to those revenues are incurred. The Group's revenues resulting from the sale of aircraft and other aerospace related products are principally denominated in U.S. dollars due to the requirements of the marketplace, but a substantial part of the manufacturing costs are denominated in euro.

### a) Use of financial instruments

In the course of day-to-day financial management, Dasa uses financial instruments, such as forward exchange contracts and currency options. Because of changes in currency exchange rates, the Group may be exposed to risks. Dasa 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 DaimlerChrysler-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.

### b) Notional amounts and credit risk

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

The notional amounts of derivative financial instruments are as follows:

	At December 31,	
	1999	1998
Currency contracts	5,442	5,483

Currency contracts include foreign exchange forward and option contracts which are mainly utilized to hedge existing assets, liabilities and firm commitments (principally U.S. dollars). The objective of the Group's hedging transactions is to reduce the market risk of its foreign denominated future cash flows to exchange rate fluctuations. The Group has entered into currency contracts for a period of one to five years.

The Group 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. Dasa 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		At December 31, 1998	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Balance Sheet</b>				
<b>Financial Instruments:</b>				
Assets:				
Financial assets	111	111	66	66
Securities	55	55	21	21
Cash and cash equivalents	4,169	4,169	5,430	5,430
Liabilities:				
Financial liabilities	239	239	237	237
<b>Derivative</b>				
<b>Financial Instruments:</b>				
Assets:				
Currency contracts	-	37	5	180
Liabilities:				
Currency contracts	147	504	117	171

*Financial Liabilities* - The carrying amount of the Group's balance-sheet financial liabilities is not materially different from fair value.

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

### d) Accounting for and reporting of derivative financial instruments

Financial instruments, including derivatives, purchased to offset the Group's exposure to identifiable and committed transactions with 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").

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.

(in millions of €)



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

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

## 21. SEGMENT REPORTING

The Group operates in 7 divisions; a description of the products and services, from which each segment derives its revenues, follows:

- *Commercial Aircraft* – The Commercial Aircraft business includes the activities of DaimlerChrysler Aerospace Airbus GmbH and its subsidiaries, focused on the development, production and final assembly of passenger jets in the 100-plus seat category and also of civil and military transport aircraft.
- *Helicopters* – This business unit includes the development, manufacture and sale of helicopters for military and civil applications by the Eurocopter Group. The product line comprises single-engine light helicopters, as well as twin-engine light- and medium-weight helicopters.
- *Military Aircraft* – The capacities and expertise of Dasa in the design, development, integration, production and support of fighters as well as of military transport and mission aircraft are concentrated in its Military Aircraft business unit.
- *Space Infrastructure* – Space Infrastructure concentrates on the development and production of orbital systems, including programs involving space stations and the development of new technologies and launcher systems.
- *Satellites* – The Satellites business unit develops and manufactures satellite systems for science, earth observation, communication and security applications. These activities are mainly concentrated at Dornier Satellitensysteme GmbH.
- *Defense and Civil Systems* – The business unit Defense and Civil Systems combines the activities of Dasa as well as of several subsidiaries and joint ventures in the fields of defense electronics and missile systems, civil equipment systems and services.
- *Aero Engines* – The business unit Aero Engines is involved in the development, production, sale and product support of propulsion systems for aircraft and helicopters by MTU Motoren- und Turbinen-Union München GmbH and its subsidiaries.

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 costs and to include certain financial income, net and administrative charges from DCAG.

Sales and revenues related to transactions between segments are generally recorded at prices that approximate third-party selling prices. Revenues are allocated to countries based on the location of the customer. Long-term assets are allocated based on the location of the respective units. Capital expenditures represent the purchase of property, plant and equipment.

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

	<i>Commercial Aircraft</i>	<i>Helicopters</i>	<i>Military Aircraft</i>	<i>Space Infra- structure</i>	<i>Satellites</i>	<i>Defense and Civil Systems</i>	<i>Aero Engines</i>	<i>Other/ Elimina- tions</i>	<i>Consoli- dated</i>
<b>1999</b>									
Revenues	3,279	658	848	552	446	1,655	1,740	13	9,191
Intersegment sales	61	47	229	40	12	69	2	(460)	-
Total revenues	3,340	705	1,077	592	458	1,724	1,742	(447)	9,191
Identifiable segment assets	4,150	775	1,134	471	536	1,654	2,179	1,035	11,934
Capital expenditures	151	24	35	10	5	50	53	8	336
Depreciation and amortization	115	26	30	11	9	50	37	12	290
<b>1998</b>									
Revenues	2,870	638	765	526	629	1,687	1,655	-	8,770
Intersegment sales	92	42	192	56	16	42	5	(445)	-
Total revenues	2,962	680	957	582	645	1,729	1,660	(445)	8,770
Identifiable segment assets	4,605	744	1,219	467	463	1,610	2,233	1,629	12,970
Capital expenditures	137	47	34	12	7	50	35	4	326
Depreciation and amortization	102	20	27	10	10	73	33	14	289
<b>1999</b>									
Revenues	2,393	577	665	527	726	1,415	1,513	-	7,816
Intersegment sales	40	43	181	38	15	38	2	(357)	-
Total revenues	2,433	620	846	565	741	1,453	1,515	(357)	7,816
Identifiable segment assets	3,679	653	1,169	418	394	1,540	1,990	1,331	11,174
Capital expenditures	118	23	19	11	9	40	33	2	255
Depreciation and amortization	121	27	27	10	10	53	37	15	300

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A reconciliation from income before financial income, income taxes and minority interests to operating profit follows:

	1999	1998	1997
Income before financial income, income taxes and minority interests	657	585	114
Not allocated:			
Certain pension costs	146	143	132
Allocated:			
Income from certain investments	(28)	(62)	67
Administrative charges	(51)	(32)	(29)
Other	6	(11)	-
<b>Consolidated operating profit</b>	<b>730</b>	<b>623</b>	<b>284</b>

(in millions of €)

Revenues	Other		North America	Latin America	Asia	Other Countries	Consolidated
	Germany	European Countries					
1999	2,702	4,663	1,450	71	267	38	9,191
1998	2,604	4,300	1,496	91	245	34	8,770
1997	2,207	3,872	1,239	245	208	45	7,816

More than 90% of the long-term assets are located in Germany.

**22. FORMATION OF EADS AND ASTRIUM**

In October 1999, DaimlerChrysler, the French Lagardère Group and the French government agreed to merge their respective aerospace and defence 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, Defence and Space Company (EADS), will be established through a merger of Aerospatiale Matra S.A., Dasa 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.

In October 1999, Dasa, Aerospatiale Matra and BAe Systems plc signed a formation agreement for a tri-national European space company to be named Astrium. Astrium is expected to combine the space systems businesses of Dasa and Matra Marconi Space, a joint venture of Aerospatiale Matra and BAe Systems, in the first half of 2000. Consummation of the merger is subject to various conditions, including among others, approval of certain governmental authorities.

**INDEPENDENT AUDITORS' REPORT**

We have audited in accordance with German and United States generally accepted auditing standards, the consolidated balance sheets of DaimlerChrysler AG and subsidiaries ("DaimlerChrysler") as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the years in the three-year period ended December 31, 1999. DaimlerChrysler prepared its consolidated financial statements in accordance with United States generally accepted accounting principles ("U.S. GAAP"), with the exception of the use of the proportionate method of accounting for certain joint venture companies in 1998 and 1997 as discussed in Note 3 thereto. In our report dated February 14, 2000, we expressed an unqualified opinion, except as to the use of the proportionate method of accounting for certain joint ventures in 1998 and 1997 as described above, on such DaimlerChrysler consolidated financial statements.

Our audit of DaimlerChrysler was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information set forth in the accompanying consolidated balance sheets of DaimlerChrysler Aerospace Aktiengesellschaft and subsidiaries, a wholly-owned corporate unit of

DaimlerChrysler, as of December 31, 1999 and 1998 and the related consolidated statements of income and cash flows for each of the years then ended, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the consolidated financial statements taken as a whole.

Munich, February 14, 2000

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Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Schmid  
Wirtschaftsprüfer



Dr. Dauner  
Wirtschaftsprüfer





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**Personnel Committee:**

Jürgen E. Schrempp  
Dr. jur. Manfred Gentz  
Ingrid Lüllmann  
Peter Zimmermann

\* Elected by the employees



Supervisory Board and Board of Management jointly discussed the situation of the Group, the strategic development of the different business units as well as individual topics in the three meetings held in the business year 1999.

The Supervisory Board has been informed in detail about the business development and the economic situation of the Group and its business units by the Board of Management through business reviews given at the meetings and through the monthly reports submitted to them. Verbatim and written reports were given on those topics that had not been discussed individually during the meetings. In addition, the Chairman of the Supervisory Board had regular conversations with the individual members of the Board of Management in order to be kept informed.

According to the rota, medium-term corporate planning (1999-2001) including investment, staff and profit planning, was discussed during the Supervisory Board meeting held on February 12, 1999.

At the meeting held on March 26, 1999, the 1998 financial statements were discussed and approved.

The meeting held on December 3, 1999 focussed on medium-term corporate planning (2000-2002), including investment, staff and profit planning.

Individual topics being discussed by the Supervisory Board in the business year 1999 comprised among other topics the strategy within the scope of the consolidation of the European aerospace industry, cooperation with Matra Marconi Space, current political development due to the change of government as well as the decision to establish the European Aeronautic, Defence and Space Company (EADS) together with the French company Aerospatiale Matra and Casa of Spain.

On December 3, 1999, Dr. Wolfgang Piller, successor to the late Dr. h.c. Max Streibl, took up his position as a member of the Supervisory Board of DaimlerChrysler Aerospace AG.

The financial statements of DaimlerChrysler Aerospace AG as per December 31, 1999 according to the German balancing requirements, the annual report as well as the accounting principles used were verified by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, München, and found to be in accordance with the books and with the pertinent legal requirements. This also applies to the consolidated financial statements according to US-GAAP (generally accepted accounting principles), with the reservation of the quota consolidation used by DaimlerChrysler Aerospace, however, explicitly permitted by the Securities and Exchange Commission (SEC), as well as to the consolidated annual report.

These documents as well as the auditors' reports were available to the Supervisory Board. They were discussed in the presence of the auditors by the Supervisory Board and the Board of Management in a joint meeting held on February 22, 2000. The Supervisory Board adopted the result of the examinations made by the auditors and, as a result of its own examinations, stated that it did not show any cause for questioning. The Supervisory Board took notice of the 1999 consolidated financial statements and approved and thus ratified the 1999 financial statements of DaimlerChrysler Aerospace AG at its meeting on February 22, 2000.

Munich, February 2000

The Supervisory Board

A handwritten signature in blue ink, appearing to read 'Jürgen Schrempp'.

Jürgen E. Schrempp  
Chairman

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