

Profitability.

EBIT

The **Daimler Group** achieved EBIT of €10.8 billion in 2014 (2013: €10.8 billion), with significant increases across all divisions in total. Compared to the previous year, there was a negative impact on Group EBIT, however, caused by a lower contribution from the reconciliation of segment EBIT to Group EBIT. [↗ B.12](#) [↗ B.13](#)

This result was positively affected in particular by the new S-Class in its first full year, the expanded range of compact automobiles and better pricing at Mercedes-Benz Cars. At Daimler Trucks, increased unit sales in the NAFTA region were the main factor contributing to the significant earnings improvement in 2014. The earnings posted by Mercedes-Benz Vans were also significantly higher than in the previous year, due in particular to the very positive development of unit sales. Daimler Buses achieved significantly improved earnings primarily due to strong unit sales of complete buses and a positive product mix in Western Europe. Daimler Financial Services was also able to significantly surpass its prior-year earnings as a result of increased contract volume. In all divisions, the increasing impact of the implemented efficiency programs had a positive impact on operating profit. The development of currency exchange rates had a negative impact on earnings, however.

Gains recognized on the disposal of shares in Rolls-Royce Power Systems Holding GmbH (RRPSH) and on the remeasurement and sale of shares in Tesla Motors Inc. (Tesla) (less the loss on the related share-price hedges) boosted earnings by a total of €1,482 million. Expenses connected with the EU Commission's ongoing antitrust investigation of European manufacturers of commercial vehicles reduced earnings by €600 million. In the previous year, the remeasurement and sale of the remaining 7.4% of EADS shares resulted in a gain of €3,223 million.

Due to the favorable business development in all divisions, Daimler was able to significantly exceed its prior-year EBIT from the ongoing business of €8.0 billion, achieving €10.1 billion in 2014, which is in line with our expectations as stated in the Outlook section of Annual Report 2013. [↗ B.12](#)

The Mercedes-Benz Cars and Daimler Trucks divisions significantly increased their EBIT from the ongoing business in 2014 and thus met the forecasts made in Annual Report 2013. The same applies to the Mercedes-Benz Vans division, which achieved EBIT from the ongoing business at the prior-year level. However, the earnings of the Daimler Buses and Daimler Financial Services divisions developed better than we had expected at the beginning of 2014. We had anticipated a slight improvement at Daimler Buses and stabilization at the prior-year level at Daimler Financial Services. We adjusted those assessments upwards as the year progressed in the context of our quarterly reporting.

B.12

EBIT by segment

In millions of euros	EBIT			EBIT from ongoing business		
	2014	2013	14/13 % change	2014	2013	14/13 % change
Mercedes-Benz Cars	5,853	4,006	+46	5,964	4,180	+43
Daimler Trucks	1,878	1,637	+15	2,073	1,753	+18
Mercedes-Benz Vans	682	631	+8	638	631	+1
Daimler Buses	197	124	+59	211	163	+29
Daimler Financial Services	1,387	1,268	+9	1,387	1,268	+9
Reconciliation	755	3,149	-76	-127	9	.
Daimler Group	10,752	10,815	-1	10,146	8,004	+27

The significant earnings improvement at Daimler Buses resulted primarily from increased unit sales of complete buses. The main factor behind the increased earnings at Daimler Financial Services was the very positive development of new business in combination with lower risk costs.

The special items affecting earnings in the years 2014 and 2013 are listed in table [B.14](#).

Mercedes-Benz Cars posted EBIT of €5,853 million, which is significantly higher than the prior-year figure of €4,006 million. The division's return on sales was 8.0% (2013: 6.2%). [B.15](#)

The development of earnings primarily reflects the ongoing growth in unit sales, especially in Asia, Europe and the United States. This was due in particular to the new S-Class in its first full year and the expanded range of compact automobiles. Mercedes-Benz Cars also improved its earnings as a result of better pricing and the efficiency program "Fit for Leadership". Adverse effects on earnings resulted from expenses for the enhancement of products' attractiveness, capacity expansions and advance expenditure for new technologies and vehicles. In addition, currency translation had a negative impact. EBIT also include impairments of €30 million recognized on investments in the area of alternative drive systems.

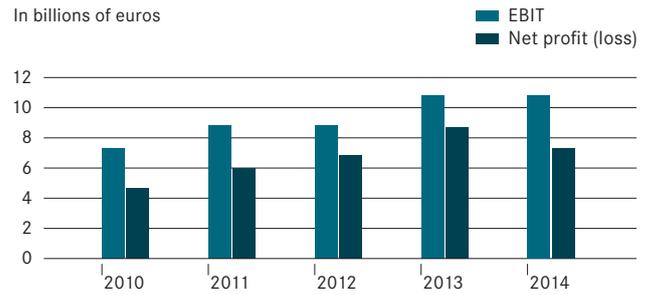
All the **automotive divisions** were also affected by the restructuring of Daimler's own sales organization in Germany by a total of €116 million. In this context, we refer to the information provided in [Note 5](#) of the Notes to the Consolidated Financial Statements.

Daimler Trucks achieved EBIT of €1,878 million (2013: €1,637 million), which is significantly higher than the prior-year figure. The division's return on sales was 5.8% (2013: 5.2%). [B.15](#)

Significantly higher unit sales in the NAFTA region and Japan made a major contribution to the earnings improvement in 2014. Lower warranty costs and the successful efficiency and growth program "Daimler Trucks #1" also had positive effects. Unit sales and EBIT were adversely influenced in 2014 by the weak economic situation in Latin America and Europe, as well as by the after-effects of the introduction of Euro VI emission regulations at the beginning of 2014. Currency effects and expenses of €149 million for workforce adjustments in the context of optimization programs in Brazil and Germany also had a negative impact. EBIT also includes an expense of €30 million from the impairment of the carrying value of the investment in Kamaz. An additional factor is that there was no longer a contribution to earnings from RRPSH following the execution of the put option.

B.13

Development of earnings



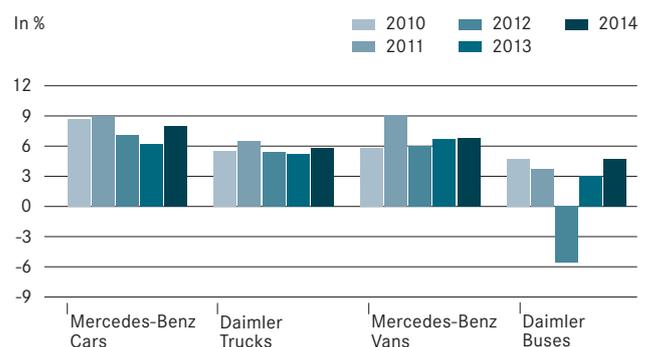
B.14

Special items affecting EBIT

	2014	2013
In millions of euros		
Mercedes-Benz Cars		
Impairment of investments in the area of alternative drive systems	-30	-174
Restructuring of sales organization in Germany	-81	-
Daimler Trucks		
Workforce adjustments	-149	-116
Impairment of investment in Kamaz	-30	-
Restructuring of sales organization in Germany	-16	-
Mercedes-Benz Vans		
Reversal of impairment of investment in Fujian Benz Automotive Corp. Ltd.	+61	-
Restructuring of sales organization in Germany	-17	-
Daimler Buses		
Business repositioning	-12	-39
Restructuring of sales organization in Germany	-2	-
Reconciliation		
Sale of shares in RRPSH	+1,006	-
Measurement of put option for RRPSH	-118	-60
Remeasurement of Tesla shares	+718	-
Sale of Tesla shares and hedge of Tesla share price	-124	-23
Expenses related to EU antitrust proceedings	-600	-
Remeasurement and sale of remaining shares in EADS	-	+3,223

B.15

Return on sales

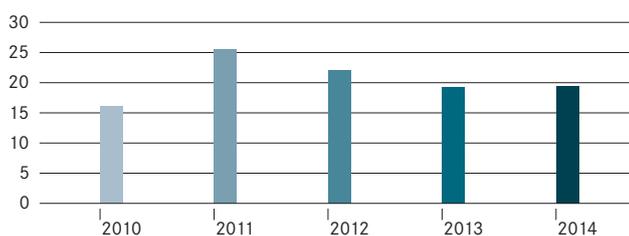


B.16

Return on equity

Daimler Financial Services

In %



B.17

Consolidated statement of income

	2014	2013 ¹	14/13 % change
In millions of euros			
Revenue	129,872	117,982	+10
Cost of sales	-101,688	-92,855	+10
Gross profit	28,184	25,127	+12
Selling expenses	-11,534	-11,050	+4
General administrative expenses	-3,329	-3,188	+4
Research and non-capitalized development costs	-4,532	-4,205	+8
Other operating income	1,759	1,530	+15
Other operating expense	-1,160	-399	+191
Share of profit from equity-method investments, net	897	3,345	-73
Other financial expense, net	458	-349	.
Interest income	145	212	-32
Interest expense	-715	-884	-19
Profit before income taxes	10,173	10,139	+0
Income taxes	-2,883	-1,419	+103
Net profit	7,290	8,720	-16
thereof			
attributable to non-controlling interests	328	1,878	-83
thereof			
attributable to shareholders of Daimler AG	6,962	6,842	+2

¹ The figures for 2013 have been adjusted due to restructuring within functional costs. Further information is provided in Note 1 of the Notes to the Consolidated Financial Statements.

B.18

Reconciliation of Group EBIT to profit before income taxes

	2014	2013
In millions of euros		
Group EBIT	10,752	10,815
Amortization of capitalized borrowing costs ¹	-9	-4
Interest income	145	212
Interest expense	-715	-884
Profit before income taxes	10,173	10,139

¹ Amortization of capitalized borrowing costs is not included in the internal performance measure EBIT, but is a component of cost of sales.

Mercedes-Benz Vans posted EBIT of €682 million in 2014, a significant improvement on its prior-year earnings of €631 million. The division's return on sales increased to 6.8% from 6.7% in 2013. [↗ B.15](#)

Operating profit reflects the very positive development of unit sales, especially in Europe and the NAFTA region. Earnings were negatively impacted, however, by research and development expenditure for new products and by expenses for the market launch of the new V-Class multipurpose vehicle and the new Vito; currency effects had an additional negative impact on earnings. EBIT increased by €61 million following the reversal of an impairment previously recognized on an investment in the joint venture Fujian Benz Automotive Corporation (FBAC).

Daimler Buses significantly increased its EBIT to €197 million in 2014 (2013: €124 million). The division's return on sales was 4.7% (2013: 3.0%). [↗ B.15](#)

This earnings improvement resulted primarily from increased unit sales of complete buses and a positive product mix in Western Europe, as well as from further efficiency progress with "GLOBE 2013" and positive exchange rate effects. There was an opposing, negative impact from lower unit sales of bus chassis in Latin America. Although the economic situation in Brazil and Argentina was difficult and, as had been expected, the Turkish market contracted, profitability improved significantly compared with the previous year. Expenses for repositioning the division's business amounted to €12 million in 2014 (2013: €39 million).

Daimler Financial Services posted EBIT of €1,387 million, significantly surpassing its prior-year earnings (2013: €1,268 million). The division's return on equity was 19.4% (2013: 19.2%). [↗ B.16](#)

This development was primarily due to the increased contract volume and the ongoing positive development of risk costs, whereby currency effects and additional expenses in connection with business expansion were more than offset.

The **reconciliation** of the divisions' EBIT to Group EBIT comprises gains and/or losses at the corporate level and the effects on earnings of eliminating intra-group transactions between the divisions.

Items at the corporate level resulted in income of €713 million (2013: €3,067 million), primarily related to our equity interests in RRPSH and Tesla in 2014. The sale of Daimler's shares in RRPSH resulted in a gain of €1,006 million while the remeasurement of the put option resulted in an expense of €118 million. In connection with our investment in Tesla, the loss of significant influence on that company meant that the Tesla shares had to be remeasured, resulting in a gain of €718 million. The hedge of Tesla's share price and the sale of those shares resulted in total expenses of €124 million. Items at the corporate level also include expenses of €600 million related to the ongoing antitrust investigations of European manufacturers of commercial vehicles by the EU Commission. In 2013, earnings were impacted in particular by Daimler's exit from the former EADS shareholder pact in April 2013. This resulted in a gain of

€3.2 billion, mainly due to the remeasurement of the shares following the loss of significant influence on EADS (€3.4 billion). In addition, until that date, items at the corporate level also included the proportionate earnings of the equity-method investment in EADS. Further information on the sale of the shares in RRPSH and Tesla and of the EADS shares in 2013 is provided in [Note 13](#) of the Notes to the Consolidated Financial Statements.

The elimination of intra-group transactions resulted in income of €42 million in 2014 (2013: €82 million).

The reconciliation of Group EBIT to profit before income taxes is shown in table [B.18](#).

Consolidated statement of income

The Group's **total revenue** increased by 10.1% to €129.9 billion in 2014; adjusted for exchange rate effects, it increased by 12.1%. The revenue growth primarily reflects the strong demand for the products of Mercedes-Benz Cars, especially in Asia, Europe and the United States. Further information on the development of revenue is provided in the ["Business development"](#) section of this Management Report. [B.17](#)

Cost of sales amounted to €101.7 billion in 2014, increasing by approximately 9.5% compared with the previous year. The rise in cost of sales was caused by higher business volumes and consequentially higher material expenses. Personnel expenses and depreciation of leased equipment and property, plant and equipment also increased. Overall, cost of sales increased at a lower rate than revenue, so gross profit in relation to revenue increased to 21.7% (2013: 21.3%). Further information on cost of sales is provided in [Note 5](#) of the Notes to the Consolidated Financial Statements. [B.17](#)

Due to the growth in unit sales, **selling expenses** increased by €0.5 billion to €11.5 billion. The main factors here were higher expenses for marketing and personnel. As a percentage of revenue, selling expenses decreased from 9.4% to 8.9%. [B.17](#)

General administrative expenses of €3.3 billion were slightly above the level of the previous year (2013: €3.2 billion), mainly driven by higher IT and personnel expenses. As a percentage of revenue, general administrative expenses decreased slightly to 2.6% (2013: 2.7%). [B.17](#)

Research and non-capitalized development costs increased by €0.3 billion to €4.5 billion in 2014. They were mainly related to the development of new models, advance expenditure for the renewal of existing models and the further development of fuel-efficient and environmentally friendly drive systems and safety technologies. As a proportion of revenue, research and non-capitalized development costs slightly decreased from 3.6% to 3.5%. Further information on the Group's research and development costs is provided in the ["Research and development"](#) section of the ["Sustainability"](#) chapter of this Management Report. [B.17](#)

Other operating income increased to €1.8 billion (2013: €1.5 billion) and **other operating expense** rose significantly this year to €1.2 billion (2013: €0.4 billion), due in particular to expenses of €0.6 billion related to the ongoing antitrust investigations of European manufacturers of commercial vehicles by the EU Commission. Further information on the composition of other operating income and expense is provided in [Note 6](#) of the Notes to the Consolidated Financial Statements. [B.17](#)

In 2014, our **share of profit from equity-method investments** decreased to €0.9 billion (2013: €3.3 billion). Both years were affected by large gains relating to the loss of significant influence on companies which were previously accounted for using the equity method. In 2014, Daimler lost its significant influence on Tesla; the subsequent remeasurement of our Tesla shares resulted in a gain of €0.7 billion. In 2013, Daimler lost its significant influence on EADS, which resulted in a gain of €3.4 billion. [B.17](#)

Other financial expense/income improved from an expense of €0.3 billion to income of €0.5 billion. This was primarily due to the disposal of the RRPSH shares, which resulted in a gain of €1.0 billion in 2014. [B.17](#)

Net interest expense improved to €0.6 billion (2013: €0.7 billion). Expenses in connection with pension and healthcare benefits were at the prior-year level. Other interest expense improved due to lower costs of maintaining adequate liquidity following the successive expiry of refinancing at high interest rates. There was an opposing effect from lower income from cash deposits and from the remeasurement of interest-rate hedges. [B.17](#)

The tax expense of €2.9 billion entered under **income-tax expense** is €1.5 billion higher than in 2013. The effective tax rate for 2014 was 28.3% (2013: 14.0%). In 2014, a gain was recognized on the sale of the RRPSH shares that was largely tax free. In connection with the ongoing antitrust investigations of European manufacturers of commercial vehicles by the EU Commission, expenses arose that were not tax deductible. In 2013, the gain on the remeasurement and sale of Daimler's EADS shares was largely tax free. Adjusted for those gains and losses, earnings subject to normal income taxes increased in 2014 compared with the previous year, which led to a correspondingly higher tax expense. Additional factors were that gains were recognized on the reversal of impairments of deferred tax assets in 2014 and that there were high tax benefits in connection with the tax assessment of previous years in 2013. [B.17](#)