Profitability

The **Daimler Group** posted EBIT of €3,095 million for the second quarter of 2014 (Q2 2013: €5,242 million). EBIT from the ongoing business increased significantly to €2,463 million in the second quarter of 2014 (Q2 2013: €2,192 million). ↗ C.03

Unit sales and revenue developed positively at all the divisions in the second quarter of 2014. The current product mix at Mercedes-Benz Cars and the increasing impact of the efficiency measures that have been implemented at all divisions have had a positive effect on operating profit. Foreign exchange rates had a negative impact on earnings, however.

The second quarter of 2014 was influenced by the remeasurement of Daimler's shares in Tesla Motors, Inc. (Tesla) as well as valuation effects from the hedging of Tesla's share price. From these effects, a remeasurement gain of €650 million in total was recognized, which is presented in the reconciliation. EBIT in the second quarter of 2013 was influenced by a gain recognized on the remeasurement and sale of the EADS shares.

The special items shown in table ↗ C.04 affected EBIT in the second quarter and first six months of 2014 and 2013.

C.03
EBIT by segment

In millions of euros	Q2 2014	Q2 2013	% change	Q1-2 2014	Q1-2 2013	% change
Mercedes-Benz Cars	1,409	1,041	+35	2,592	1,501	+73
Daimler Trucks	455	434	+5	796	550	+45
Mercedes-Benz Vans	242	204	+19	365	285	+28
Daimler Buses	50	27	+85	103	-4	.
Daimler Financial Services	336	319	+5	733	633	+16
Reconciliation	603	3,217	-81	293	3,194	-91
Daimler Group	3,095	5,242	-41	4,882	6,159	-21

C.04
Special items affecting EBIT

In millions of euros	Q2 2014	Q2 2013	Q1-2 2014	Q1-2 2013
Mercedes-Benz Cars				
Impairment of investments in the area of alternative drive systems	-	-43	-	-43
Daimler Trucks				
Workforce adjustments	-71	-82	-76	-95
Mercedes-Benz Vans				
Reversal of impairment of investment in FBAC	61	-	61	-
Daimler Buses				
Business repositioning	-8	-20	-9	-24
Reconciliation				
Remeasurement of Tesla shares	718	-	718	-
Hedge of Tesla share price	-68	-	-229	-
EADS – remeasurement and sale of remaining shares	-	3,209	-	3,209
Measurement of put option for RRPSH	-	-14	-118	-29

Mercedes-Benz Cars' second-quarter EBIT of €1,409 million was significantly higher than the prior-year figure of €1,041 million. The division's return on sales was 7.9% (Q2 2013: 6.4%). ↗ C.03

The earnings development primarily reflects the ongoing growth in unit sales, especially in China and the United States. This growth was driven in particular by the S-Class and the E-Class, as well as by the expanded range of compact cars. Mercedes-Benz Cars achieved earnings growth also as a result of better pricing. Efficiency actions from the "Fit for Leadership" program also had a positive impact on earnings. There were negative effects on earnings from expenses for the enhancement of products' attractiveness, capacity expansions and advance expenditure for new technologies and vehicles. Exchange-rate effects also had a negative impact on earnings.

The EBIT of €455 million posted by **Daimler Trucks** for the second quarter of 2014 was above the prior-year level (Q2 2013: €434 million). The division's return on sales was 5.7% (Q2 2013: 5.4%). ↗ C.03

The main drivers of the stronger earnings were the significant increase in unit sales in the NAFTA region and reduced warranty expenses. Earnings were negatively influenced by the ongoing weak demand in Latin America and exchange-rate effects. An additional factor was that there was no longer a contribution to earnings from Rolls-Royce Power Systems Holding (RRPSH) due to the exercise of the put option. Furthermore, expenses of €71 million arose for workforce adjustments in connection with the ongoing optimization programs in Brazil. The implementation of the "Daimler Trucks #1" efficiency measures had a positive effect on earnings.

Mercedes-Benz Vans achieved second-quarter EBIT of €242 million (Q2 2013: €204 million). The division's return on sales increased to 9.7% from 8.4% in the prior-year period. ↗ C.03

Earnings in the second quarter of this year reflect the positive development of unit sales, especially in Europe and the NAFTA region. Earnings were negatively affected, however, by expenses for the market launch of the new V-Class multipurpose vehicle and the new Vito; exchange-rate effects had an additional negative impact. A positive effect on EBIT of €61 million resulted from the reversal of an impairment of Daimler's investment in the joint venture Fujian Benz Automotive Corporation.

Daimler Buses achieved EBIT of €50 million, which is significantly higher than in the prior-year period (Q2 2013: €27 million), and its return on sales of 4.8% was also a substantial improvement (Q2 2013: 2.9%). ↗ C.03

The improvement in earnings compared with the second quarter of last year reflects the very positive development of unit sales of complete buses and an improved model mix in Western Europe. Exchange-rate effects and further efficiency progress also had a positive impact on earnings. Overall, this was sufficient to more than offset the negative development of the division's business in Latin America and Turkey. The optimization program for business repositioning led to expenses of €8 million (Q2 2013: €20 million).

With EBIT of €336 million, the **Daimler Financial Services** division also surpassed its prior-year earnings (Q2 2013: €319 million). ↗ C.03

The main reason for this earnings growth was the increased contract volume. Exchange-rate effects had a negative impact on EBIT, however.

The **reconciliation** of the divisions' EBIT to Group EBIT comprises income and expenses at the corporate level as well as effects on earnings from the elimination of intra-group transactions between the divisions.

Items at the corporate level resulted in income of €594 million (Q2 2013: €3,189 million). This primarily reflects the remeasurement of shares in Tesla Motors, Inc. with the amount of €718 million resulting from the end of the significant influence on that company. On the other hand, an expense of €68 million was recognized for hedging the price of Tesla shares. The second quarter of 2013 was affected by a gain of €3,209 million on the remeasurement and sale of Daimler's shares in EADS.

The elimination of intra-group transactions resulted in income of €9 million in the second quarter of 2014 (Q2 2013: €28 million).

Net interest expense for the second quarter improved by €26 million to €158 million (Q2 2013: €184 million). Expenses in connection with pension and healthcare benefits obligations were slightly below the prior-year level. Other interest result improved due to the successive expiry of refinancing at high interest rates. There was an opposing effect from lower income from cash deposits and from the measurement of interest-rate hedges.

The expense of €739 million entered under **income-tax expense** increased by €264 million compared with the prior-year period. In the second quarter of last year, the income-tax expense was relatively low compared with pre-tax earnings because the gain on the remeasurement and sale of the EADS shares was largely tax free. Adjusted for this amount, normal taxable earnings increased in the second quarter of 2014 compared with the prior-year period, which led to a correspondingly higher income-tax expense.

Net profit for the second quarter of this year amounted to €2,196 million (Q2 2013: €4,583 million). Net profit of €92 million is **attributable to non-controlling interest** (Q2 2013: €1,749 million); in the year 2013, this primarily resulted from the remeasurement of the EADS shares. Net profit of €2,104 million is **attributable to the shareholders of Daimler AG** (Q2 2013: €2,834 million); **earnings per share** therefore amounted to €1.97 (Q2 2013: €2.65).

The calculation of earnings per share (basic) is based on an average number of outstanding shares of 1,069.8 million (Q2 2013: 1,068.4 million).

The **Daimler Group's** EBIT for the first six months of 2014 amounts to €4,882 million (Q1-2 2013: €6,159 million). ↗ C.03

All the divisions posted a very positive development of unit sales and revenue in the first half of 2014. Additional factors with a positive impact on operating profit were the current product mix at Mercedes-Benz Cars and the increasing effect of the efficiency measures that have been implemented in all divisions. Group EBIT was reduced, however, by slightly negative exchange-rate effects.

The remeasurement and hedging of the Tesla shares resulted in a gain of €489 million in the first half of 2014. On the other hand, the exercise of the option to transfer shares in Rolls-Royce Power Systems Holding GmbH to Rolls-Royce led to an expense of €118 million. The first half of the year 2013 was substantially influenced by the gain realized on the EADS transaction in a total amount of €3,209 million.

The **Mercedes-Benz Cars** division posted EBIT of €2,592 million for the first two quarters of 2014 (Q1-2 2013: €1.501 million). Its return on sales was 7.5% (Q1-2 2013: 4.9%). ↗ C.03

The earnings development primarily reflects the ongoing growth in unit sales, especially in China and the United States. This growth was driven in particular by the S-Class and the E-Class, as well as by the expanded range of compact cars. Mercedes-Benz Cars achieved earnings growth also as a result of better pricing. Efficiency actions from the "Fit for Leadership" program also had a positive impact on earnings. There were negative effects on earnings from expenses for the enhancement of products' attractiveness, capacity expansions and advance expenditure for new technologies and vehicles. Exchange-rate effects also had a negative impact on earnings.

Daimler Trucks achieved EBIT of €796 million for the first half of this year (Q1-2 2013: €550 million) and a return on sales of 5.3% (Q1-2 2013: 3.7%). ↗ C.03

The increase in earnings was mainly the result of the positive development of unit sales in the NAFTA region and Asia. Lower warranty expenses and the implementation of efficiency measures from the "Daimler Trucks #1" program also had a positive effect on earnings. On the other hand, lower unit sales in Latin America and exchange-rate effects had a negative impact. Expenses of €76 million were recognized for workforce adjustments in connection with the ongoing optimization programs in Brazil.

With first-half year EBIT of €365 million, the **Mercedes-Benz Vans** division significantly surpassed its prior-year earnings (Q1-2 2013: €285 million). Its return on sales reached 7.8% (Q1-2 2013: 6.4%). ↗ C.03

The main reasons for this development were significant growth in demand in Europe and the NAFTA region; however, expenses in connection with the launch of the new V-Class and the new Vito influenced earnings. Exchange-rate effects had an additional negative impact. Earnings were boosted by a gain of €61 million on the reversal of an impairment of Daimler's investment in the Chinese joint venture Fujian Benz Automotive Corporation.

The **Daimler Buses** division achieved EBIT for the first six months of this year of €103 million (Q1-2 2013: EBIT of minus €4 million). Its return on sales was 5.4% (Q1-2 2013: minus 0.2%). ↗ C.03

Operating profit increased due to the positive development of the business with complete buses as well as significant efficiency progress. The optimization program for business repositioning resulted in expenses of €9 million in the first half 2014 (Q1-2 2013: €24 million).

Earnings by the **Daimler Financial Services** division of €733 million for the first two quarters of 2014 were significantly higher than in the prior-year period (Q1-2 2013: €633 million). ↗ C.03

The main reasons for this earnings growth were the increased contract volume and a gain of €45 million on the sale of a non-automotive-related asset in the United States. However, exchange-rate effects had a negative impact on EBIT.

Items included in the **reconciliation** from the EBIT of the divisions to Group EBIT had a total overall positive impact of €293 million in the first half of this year (Q1-2 2013: €3,194 million).

Items at corporate level resulted in income of €280 million (Q1-2 2013: income of €3,132 million). This includes the gain of €718 million recognized on the remeasurement of Daimler's Tesla shares. This remeasurement had to be carried out as Daimler no longer had a significant influence on that company. On the other hand, an expense of €229 million was recognized from hedging the Tesla share price. In March 2014, the Board of Management and the Supervisory Board decided to transfer Daimler's 50% interest in RRPSH to the partner Rolls-Royce Holdings plc. In this context, Daimler exercised the put option on the investment in RRPSH agreed upon in 2011; this resulted in an expense of €118 million in the first half of 2014. In mid-April 2014, the sale of the shares in RRPSH was agreed upon for a price of €2.43 billion; the carrying amount of the investment at March 31, 2014 was €1.42 billion. The transaction is expected to be closed by the end of 2014 but is still subject to the approval of the antitrust and foreign-trade authorities.

Until the sale of Daimler's remaining shares in EADS in the second quarter of 2013, income and expenses at the corporate level also included Daimler's proportionate share of the earnings of the equity-method investment in EADS, which amounted to €49 million in the first half of 2013. Furthermore, earnings in the first half of 2013 were boosted by a total gain of €3.2 billion on the remeasurement and sale of the remaining EADS shares.

The elimination of intra-group transactions resulted in income of €13 million in the first two quarters of 2014 (Q1-2 2013: €62 million).

Net interest expense in the first half of 2014 improved by €48 million to €293 million (Q1-2 2013: €341 million). Expenses in connection with pension and healthcare benefits obligations were unchanged compared with the prior-year level. Other interest result improved due to the successive expiry of refinancing at high interest rates. There was an opposing effect from lower income from cash deposits and from the measurement of interest-rate hedges.

The expense of €1,303 million entered under **income-tax expense** increased by €632 million compared with the prior-year period. In the first half of last year, the income-tax expense was relatively low compared with pre-tax earnings, as the gain recognized on the remeasurement and sale of the EADS shares was largely tax free. Adjusted for this amount, normal taxable earnings increased in the first two quarters of 2014 compared with the prior-year period, which led to a correspondingly higher income-tax expense.

Net profit decreased in the first six months of 2014 to €3,282 million (Q1-2 2013: €5,147 million). Profit **attributable to non-controlling interest** amounted to €151 million (Q1-2 2013: €1,777 million); in the year 2013, this primarily resulted from the remeasurement of the EADS shares. Net profit of €3,131 million is **attributable to the shareholders of Daimler AG** (Q1-2 2013: €3,370 million); **earnings per share** decreased to €2.93 (Q1-2 2013: €3.16).

The calculation of earnings per share (basic) is based on an average number of outstanding shares of 1,069.8 million (Q1-2 2013: 1,068.0 million).

Cash flows

Cash provided by operating activities ↗ C.05 of €1.6 billion in the first half of 2014 was at the level of the prior-year period. Profit before income taxes included a non-cash gain on the remeasurement and an expense from hedging the price of Tesla shares in a net amount of €0.5 billion in the first half of 2014; in the first half of 2013, it included a non-cash gain of €3.4 billion on the remeasurement of the EADS shares. Adjusted for these effects, profit before income taxes improved compared with the prior-year period. The development of working capital had an opposing effect. The comparatively higher inventory increase and the lower increase in trade payables was not fully offset by the development of trade receivables. Growth in new business in leasing and sales financing once again surpassed the high level of the prior-year period. Another factor was that the positive business development in the first half of 2014 led to higher income-tax payments.

C.05

Condensed consolidated statement of cash flows

In millions of euros	Q1-2 2014	Q1-2 2013	Change
Cash and cash equivalents at beginning of period	**11,053**	10,996	+57
Cash provided by operating activities	**1,641**	1,570	+71
Cash used for investing activities	**-1,758**	-2,716	+958
Cash provided by/used for financing activities	**-163**	1,807	-1,970
Effect of exchange-rate changes on cash and cash equivalents	**21**	-50	+71
Cash and cash equivalents at end of period	**10,794**	11,607	-813