

# Overall Assessment of the Economic Situation.

In the opinion of the Board of Management, the Daimler Group's economic situation is very satisfactory at the time of publication of this Annual Report. On the basis of a wide-ranging product offensive at all divisions, we continued along our growth path during the year under review. We were able to achieve our growth targets to a very large extent and our profitability improved significantly as the year progressed.

Although some major sales markets were still difficult, all of our automotive divisions increased their unit sales and further improved their market position, in some cases significantly. Mercedes-Benz Cars set a new record for unit sales, the Mercedes-Benz Vans and Daimler Buses divisions both posted increases, and the Daimler Trucks division improved on its prior-year unit sales. Along with the positive development of the automotive business, the Daimler Financial Services division also expanded significantly in 2013. The Group's total revenue also grew, by 3% to €118.0 billion; adjusted for exchange-rate effects, there was actually an increase of 7%.

Operating profit (EBIT) from the ongoing business of €7.9 billion was at a high level, although we did not quite match the prior-year figure, which was our target for the year 2013. The continuation of high expenditure for the expansion of the product portfolio and the production network once again had an impact on our key financial metrics in the year under review. But it was important that our earnings situation improved continuously as the year progressed. As a result, we achieved a very good return on capital employed also in 2013; with a return on net assets of 22.7% (2012: 19.6%), we once again earned significantly more than our cost of capital. This is reflected also by our value added, which at €5.9 billion was significantly higher than the prior-year figure of €4.3 billion. This increase was due not only to the positive development of business operations, but also to the capital gain on the remeasurement and sale of the remaining 7.4% of EADS shares in April 2013.

Thanks to the ongoing high level of earnings, we continue to have sound key financial metrics. At year-end, the Group's overall equity ratio was 24.3% (2012: 22.7%) and the equity ratio of the industrial business was 43.4% (2012: 39.8%). The net liquidity of our industrial business also remained at a comfortably high level of €13.8 billion at the end of the year (2012: €11.5 billion). The free cash flow from the industrial business – the parameter we use to measure financial strength – was €4.8 billion in 2013 (2012: €1.5 billion). This reflects the sale of the remaining shares of EADS in April 2013 yielding a cash inflow of €2.2 billion. On the other hand, there was a payment of €0.6 billion for the acquisition of a 12% equity interest in the Chinese automobile manufacturer BAIC. The free cash flow was already positively influenced in 2012 by the reduction of our EADS shareholding. When the special effects of both years are excluded, a significant increase is apparent, which is driven by operating profit but also by reporting-date factors.

We want our shareholders to participate appropriately in the earnings achieved by Daimler in 2013. At the Annual Shareholders' Meeting on April 9, 2014, the Board of Management and the Supervisory Board will therefore propose an increase in the dividend to €2.25 per share (prior year: €2.20). With this decision, we are also expressing our confidence about the ongoing course of business.

The generally very positive business development in the year 2013 was supported by several factors, with which we are positioning ourselves for a successful future. The motto of "Doing business efficiently and growing profitably" primarily relates to the efficient structuring of the most far-reaching growth program in the Group's history.

A core element of our successful growth strategy is the wide-ranging product offensive at all divisions, with which we are winning new customers and developing additional markets. Mercedes-Benz Cars currently has the youngest and most attractive product portfolio of all time, which we upgraded in 2013 with the new E-Class, the new compact coupe CLA, and the new S-Class. Also with trucks, we have nearly completely renewed our range of products and engines in recent years. The most important new models include the Arocs – a construction-site truck, the new Sprinter van, the new coach Setra TopClass 500, and the Freightliner Cascadia Evolution – our new flagship truck in the North American market.

Furthermore, we underscored our technology leadership with groundbreaking innovations in 2013. The new S-Class is the undisputed spearhead of automotive technology. It is a pioneer in the areas of safety, driving comfort and luxury. The S 500 INTELLIGENT DRIVE is a milestone along the way to accident-free driving. With this research vehicle, we were the first automobile manufacturer in the world to demonstrate in August 2013 that autonomous driving is possible also in long-distance and urban traffic. And before the end of 2014, we will launch the S 500 PLUG-IN HYBRID, the most fuel-efficient luxury sedan of all time.

In general, we once again made considerable progress with the reduction of fuel consumption in 2013, thanks to our new models of cars and commercial vehicles. For example, we once again significantly reduced the average CO<sub>2</sub> emissions of the cars we sell in the European Union from 140 grams per kilometer to 134 g/km in 2013. Furthermore, we were the first producer of commercial vehicles to convert its entire product range in Europe to the new Euro VI emission limits before they took effect in January 2014. Despite the equipment for exhaust-gas after-treatment, the fuel consumption of our new Euro VI engines is up to 4% better than their Euro V predecessors. The Actros is the most economical truck in its market segment in Europe and the Freightliner Cascadia Evolution is the most fuel-efficient truck in North America.

We are ideally prepared for the future also in the field of alternative drive systems. Our portfolio of locally emission-free vehicles with batteries and fuel cells is unique. It ranges from cars to vans and from light trucks to buses. And with commercial vehicles, we are the world's leading supplier of vehicles with hybrid drive.

We effectively expanded our worldwide network of production sites and research facilities in 2013, placing our future growth on a broad regional basis. The focus is on the growth markets of China, India, Brazil and Russia. Substantial investment in our plants in Germany demonstrates that they continue to play a key role as competence centers for our international network. In China, we have increased the production capacities for the model series that are already produced in that market. In addition, we will also produce the new compact SUV – the GLA – in China starting in 2014. Already in November 2013, we opened our first engine plant outside Germany in Beijing. In the same month, we acquired a 12% equity interest in our long-standing partner BAIC, thus taking a further important step within the framework of our China strategy.

Key components of our growth strategy are the efficiency programs we have initiated in all of our divisions. In this way, we ensure that our financing strength is protected also under difficult market conditions and that we will be able to continue growing profitably in the future. The implementation of these programs is running according to plan. This is reflected also by the development of earnings in the second half of 2013. With these programs, we intend to realize sustained earnings contributions totaling approximately €4 billion by the end of 2014.

Following the successful start of the product offensives for cars and commercial vehicles, the further development of our structures is now the next strategic step to help us achieve our growth targets. In order to focus our activities even more on customers and markets, we decided in September 2013 to strengthen the organization of the divisions. Under the heading of “Customer Dedication,” we are anchoring responsibility for the main sales functions and the major sales markets directly in the respective divisions. With a leaner organization and more efficient structures, we are creating the right conditions to utilize growth potential in our core business and in new markets. The main objective is to become even more attractive for new groups of customers with our new products, while intensifying the brand loyalty of our existing customers.

The future development of automotive markets offers us enormous opportunities, but is also connected with great challenges. With our growth strategies, our efficiency programs and the new structure of the Group, we laid the foundations in 2013 to utilize the opportunities and successfully meet the challenges ahead. As a result, we should succeed in combining growth with efficiency over the long term.

## Events after the End of the 2013 Financial Year.

Since the end of the 2013 financial year, there have been no further occurrences that are of major significance for Daimler. The course of business in the first two months of 2014 confirms the statements made in the “Outlook” section of this Annual Report.