

# Outlook.

The statements made in the Outlook chapter are generally based on the operational planning of Daimler AG as approved by the Board of Management and the Supervisory Board in December 2013. This planning is based on the premises we set regarding the economic situation and on the development of the automotive markets. It involves assessments made by Daimler, which are based on relevant analyses by various renowned economic research institutes, international organizations and industry associations, as well as on the internal market analyses of our sales companies. The prospects for our future business development as presented here reflect the targets of our divisions as well as the opportunities and risks presented by the anticipated market conditions and the competitive situation. We are constantly adjusting our expectations, taking into account the latest forecasts on the development of the world economy and of automotive markets, as well as our recent business development. The statements made below are based on the knowledge available to us in February 2014.

Our assessments for the year 2014 are based on the assumption of stable political and economic conditions, and the expectation that the upward trend of worldwide demand for motor vehicles will continue. The development we have outlined is subject to various opportunities and risks, which are explained in detail in the Risk and Opportunity Report. [see pages 129 ff](#)

## The world economy

At the beginning of 2014, most leading indicators – above all the index of global business confidence – suggest that growth of the world economy will accelerate moderately this year. After two years with significantly below-average rates of growth of global GDP, there are now good chances of a perceptible improvement. In particular, growth should gain momentum in the advanced economies, while the prospects for some emerging economies remain rather moderate.

The economic development of the United States is expected to be rather dynamic compared with 2013. A steadily improving labor market, the positive wealth effects of higher equity and real-estate prices, low inflation and an upturn in investment should allow significant acceleration of economic growth to a rate of between 2.5 and 3%. However, this is based on the assumption that there are no major restrictions from the side of fiscal policy. Despite the incipient economic improvement, the US Federal Reserve is not expected to increase interest rates in 2014. But the expansive monetary policy in the form of monthly bond buybacks is likely to be gradually phased out. Furthermore, there are indications that economic dynamism in Japan will subside as the year progresses, primarily due to the country's fiscal policy and the planned tax increases.

Although the European sovereign debt crisis is far from being finally resolved, the associated burdens have decreased to such an extent that the economy of the European Monetary Union should move out of recession in 2014. But ongoing high levels of unemployment and the disappointingly low level of lending are likely to prevent any significant acceleration of growth. Overall, fiscal policy will remain restrictive, although much less so than last year. Total GDP growth will therefore probably remain moderate at approximately 1%. Growth of the German economy should once again be above average. The economic outlook for the United Kingdom is even more favorable, with GDP growth of probably more than 2%.

The economic revival in the United States and Europe will have a positive impact on the emerging economies through a significant increase in world trade. But structural problems are hindering a more sustained economic upturn in some countries such as India, Brazil and Russia. Another factor is that monetary policy is likely to be restrictive in some countries in order to limit inflationary pressure and to avoid capital outflows. The emerging economies are therefore expected to post similar growth to the previous year at approximately 4.5%. The main assumption in this respect is that the reform measures taken in China are effective and the Chinese economy moves onto a stable growth path of at least 7 to 7.5%.

In total, therefore, global economic output could expand by rather more than 3% in 2014.

With regard to the currencies important for our business, we continue to anticipate sharp exchange-rate fluctuations in 2014. Compared with the average exchange rates in the year 2013 (USD/€: 1.33; GBP/€: 0.85), we anticipate a trend of slight depreciation of the US dollar, while the British pound should remain fairly stable against the euro. With regard to the Japanese yen (average for 2013: 130 yen/euro) and exchange rates important to us of various emerging markets, we assume that those currencies will depreciate once again.

In order to counteract the risks arising for our business as a result of the still very volatile exchange rates, we conduct hedging transactions as far as this makes sense for the various currencies. For the year 2014, we have hedged well over half of the exchange-rate risks as of mid-February.

### Automotive markets

The more favorable economic outlook should result in further growth in global **demand for cars** in 2014. From today's perspective, demand is expected to rise by a rate of 4 to 5%.

The Chinese market should once again make the biggest contribution to global market growth. Following the strong increase in the previous year, further expansion of the car market by approximately 10% should be possible. The US market is also likely to grow. Although its growth will probably be more moderate than in 2013, the US market volume should expand to about 16 million passenger cars and light trucks – a volume that was last reached in 2007 before the worldwide financial crisis.

After significant contraction of the overall Western European car market lasting several years, we expect a hesitant market recovery in 2014. Thanks to the continued reduction of risks from the sovereign debt crisis and a slight economic revival, an improvement of the demand situation is anticipated in some major markets. Demand should revive again somewhat also in Germany.

Demand for cars in Japan is expected to fall, however. This has less to do with the economic outlook than with the increase in value-added tax planned for April. Considerable volumes of purchases were therefore brought forward to the second half of 2013, so a market correction is to be expected this year.

In the major emerging markets (except China), another weak demand situation is anticipated following the weak market development of last year. The Russian market should be slightly larger than in the previous year and we expect a moderate recovery of the car market in India.

After the world market for **medium- and heavy-duty trucks** expanded slightly in 2013 despite difficult market conditions, further moderate growth is expected this year. But market developments will continue to differ significantly from one region to another.

In the NAFTA region, we anticipate significant market growth of up to 10% due to the increasingly dynamic economy. Decreasing uncertainty with regard to fiscal policy should be a factor contributing towards the gradual end of the lack of demand in the market over the coming months.

The development of the European market in recent months was primarily affected by the introduction of the Euro VI emission standards. Purchases brought forward had a very positive influence on demand towards the end of 2013. Recently, however, this special effect has started to subside. Developments during the rest of 2014 will depend in particular on the extent to which the economic revival in Europe can offset the negative impact of the purchases brought forward. From today's perspective, we expect the market volume for the full year to be slightly below the level of 2013.

Ongoing economic stimuli and an expansive monetary policy should continue to have a positive effect on the Japanese truck market in 2014; slight growth is anticipated for light-, medium- and heavy-duty trucks overall. The Brazilian market for medium- and heavy-duty trucks is likely to be just below the prior-year level, primarily due to the below-average development of investment activity and somewhat less favorable financing conditions. In Russia, demand for trucks is likely to recover slightly. The Indian market should stabilize after the significant losses of the previous years. China, the world's biggest market for trucks, should post moderate growth.

Overall, we anticipate stable demand for medium-sized and large **vans** in Europe in 2014, whereby market developments will differ greatly in the various countries. Also for small vans, we expect to see a market volume in Europe in the magnitude of the previous year. For the United States, we anticipate a significant increase in demand in the market for large vans in 2014. In Latin America, the market for large vans should also continue to expand, and we anticipate a further revival of demand also in China in 2014.

We expect a slightly larger market volume for **buses** in Western Europe in 2014 than in 2013. In Latin America, we anticipate stable demand for buses. The market for buses in Brazil should remain at a good level in view of the upcoming soccer World Cup in 2014.

## Unit sales

**Mercedes-Benz Cars** will consistently follow its path of growth in the context of the “Mercedes-Benz 2020” offensive in 2014. A rejuvenated model portfolio and important new product launches should help us to significantly increase our unit sales and thus reach a new record. The new S-Class is likely to make a large contribution to the growth in unit sales. The brand’s flagship established itself as the market leader already in 2013. As of the third quarter, the new S-Class coupe will also be available and will set new standards in the luxury segment. The all-new C-Class sedan will be delivered to its first customers in Europe as early as March 2014, and the GLA sports utility vehicle will be launched in the high-volume compact-car segment also in March 2014 as the fourth model of the new compact cars. For the second half of 2014, Mercedes-Benz anticipates further sales impetus above all from the market launch of the new C-Class station wagon and the new generation of the CLS and the CLS Shooting Brake. In addition, the brand is likely to profit also in 2014 from the great market success of its models in the SUV segment.

Within the framework of the “Mercedes-Benz 2020” long-term growth strategy, we will consistently expand our product portfolio in all segments also in the coming years. We will increase to five the number of models offered by Mercedes-Benz in the compact-car segment. In parallel, we will continue the model offensive also at the top end of the portfolio, for example with additional models of the new S-Class and with an additional SUV variant.

From a regional perspective, we expect the markets in North America and Asia to make major contributions to our growth in unit sales. In Asia, the Chinese market is especially important for us. We have significantly enhanced the effectiveness of our sales organization in China. We will expand the range of models offered there in 2014, partially with locally produced vehicles such as the compact SUV - the GLA, and we will further expand the dealer network also outside the major cities.

The smart brand will present the successor to its smart two-seater as well as the new smart four-seater in 2014. Due to the model change and the associated production adjustments, we assume that the brand’s unit sales will be significantly lower in 2014 than in the previous year. The new models should then facilitate strong sales growth in the following years.

**Daimler Trucks** anticipates a significant increase in total unit sales in 2014.

In Western Europe, the aftereffects of purchases brought forward to the second half of 2013 due to the imminent introduction of Euro VI emission limits could at first lead to lower demand in 2014. However, in view of the anticipated upward development of the general economic situation, this weakness should become less pronounced as the year progresses. We intend to further strengthen our very good position with the full availability of our new model range and the high acceptance of our products in the market.

In Brazil, after the market slump in 2012 and a recovery phase in 2013, we now anticipate a slight decrease in demand. Our extensive measures taken to optimize production, products and sales should further strengthen our market position. These measures include the investment of approximately one billion Brazilian real (approximately €300 million) in the next two years. Those funds will flow primarily into the development of new products and innovative technologies and into process optimization and modernization at the plants in São Bernardo do Campo and Juiz de Fora.

Unit sales in the NAFTA region should develop positively and be significantly higher than in 2013. Following last year’s gain in market share, our products will optimally satisfy customers’ needs also in 2014, and will thus continue to secure our strong market position.

In Asia, the availability of additional BharatBenz models in the Indian market should make a major contribution to growth in unit sales. In addition, we are generating synergy potential and further growth possibilities in the context of our new “Asia Business Model.” In Japan, we will participate in the expected slight market growth.

**Mercedes-Benz Vans** anticipates a significant increase in unit sales in 2014. With the Citan, we are now a full-range supplier and can thus utilize additional growth potential. With regard to medium-sized and large vans, we expect unit sales in Europe to rise significantly, whereby the new Sprinter and the new Vito and the V-Class will stimulate additional demand. We anticipate a further significant increase in unit sales also for the Citan. In the context of the “Vans goes global” business strategy, we intend to continue our expansion also in North and South America and in China.

**Daimler Buses** is pursuing the goal in 2014 of significantly increasing its unit sales and maintaining its leading position in its core markets for buses above 8 tons with innovative and high-quality new products. Not least due to the soccer World Cup in 2014 and new products for the high-volume school-bus segment, we expect unit sales to increase in Brazil. In Europe, we anticipate a stable development of unit sales. The “GLOBE 2013” growth and efficiency offensive was launched in 2012 to utilize further growth potential and to strengthen our competitiveness; it is expected to result in further gains in 2014.

With its “DFS 2020” strategy, **Daimler Financial Services** aims to achieve further profitable growth in the coming years. For the year 2014, we anticipate significant growth in new business and contract volume. Important growth drivers are the product offensives of the automotive divisions, the addressing of younger customers as a new target group, the expansion of business especially in Asia, the further development of our online sales channels and the development of innovative mobility offers. In addition to car2go, we will systematically expand our range of mobility services. Two examples of this are the “moovel” mobility platform and the “Park2gether” online service for finding parking spaces.

On the basis of our assumptions concerning the development of automotive markets and the divisions’ planning, we expect the **Daimler Group** to achieve further significant growth in total unit sales in 2014.

### Revenue and earnings

We assume that the Daimler Group’s **revenue** will grow significantly in 2014. Although there is still great uncertainty regarding the future development of our markets, we can assume that demand will generally increase. Another positive factor is that we should profit from the numerous new models that we launched in all of our automotive divisions in 2012 and 2013. The new models of the year 2014 will additionally stimulate demand, for example the new C-Class and the new GLA compact SUV at Mercedes-Benz Cars. Furthermore, we are increasingly developing the growth markets of Asia, Eastern Europe and Latin America for our products – partially also through local production. The revenue growth we anticipate is likely to be driven by all divisions, whereby Daimler Trucks and Mercedes-Benz Cars will probably deliver the biggest contributions in absolute terms. In regional terms, we expect to achieve above-average growth rates in the emerging markets and in North America.

The following factors are particularly important for the **earnings situation of the Daimler Group** in 2014:

- Due to our Group-wide product offensive, we are starting the year 2014 in all automotive divisions with a large number of new and attractive products and new technologies. This will enable us to convince our customers also in difficult markets.
- In order to focus our activities even more sharply on our customers and markets, we decided in September 2013 to strengthen the organization of the divisions. Under the heading of “Customer Dedication,” we are placing responsibility for the main sales functions and the important sales markets directly in the respective divisions. In this way, we will become faster and more flexible, and will create the right conditions to better utilize the growth potential in our core business and in new markets.

- With the programs “Fit for Leadership” at Mercedes-Benz Cars, “Daimler Trucks #1” at Daimler Trucks, “Performance Vans 2013” at Mercedes-Benz Vans and “GLOBE 2013” at Daimler Buses, we intend to realize earnings contributions totaling approximately €4 billion by the end of 2014 as a result of measures taken for the sustained improvement of cost structures and through additional business activities. Implementation is proceeding according to plan. These programs will be fully reflected in the earnings of 2015 and the following years.
- However, the advance expenditure for our model offensive, for innovative technologies and for the worldwide production facilities will first affect our earnings in the form of increased costs and depreciation.
- Within the context of our growth strategy, we are increasing our production capacities and expanding our worldwide production network. At the same time, we are enhancing the flexibility of our manufacturing and cost structures.
- We are also further developing our sales structures – in North America, in Eastern Europe and especially in the BRIC countries.
- Although the currently very low level of interest rates and risk premiums is easing our refinancing, it is also creating more competition and thus lower margins in the financial services business.
- Despite our hedging transactions, we must assume that a sustained high value of the euro against the US dollar, the Japanese yen and other currencies important to Daimler, including those of various emerging economies, will adversely affect the development of earnings compared with last year.

On the basis of the anticipated market development, the aforementioned factors and the planning of our divisions, we assume that **Group EBIT from the ongoing business** will increase significantly in 2014.

For the individual divisions, we aim to achieve the following EBIT targets in full-year 2014:

- Mercedes-Benz Cars: significantly above the prior-year level,
- Daimler Trucks: significantly above the prior-year level,
- Mercedes-Benz Vans: at the prior-year level,
- Daimler Buses: slightly above the prior-year level and
- Daimler Financial Services: at the prior-year level.

## Free cash flow and liquidity

The anticipated development of earnings in the automotive divisions will also have a positive impact on the **free cash flow** of the industrial business in 2014. When comparing with 2013, however, it is necessary to consider that the free cash flow of that year was positively influenced not only by the successful EADS transactions but also by year-end effects, which will be offset again this year. In combination with ongoing high levels of investment and research and development spending, this is likely to mean that the free cash flow of the industrial business will be significantly lower in 2014 than in 2013.

For the year 2014, we aim to have **liquidity** available in a volume appropriate to the general risk situation in the financial markets and to Daimler's risk profile. When measuring the level of liquidity, we give due consideration to possible refinancing risks caused for example by temporary distortions in the financial markets. We continue to assume, however, that we will have very good access to the capital markets and bank markets also in the year 2014. We want to cover our funding needs in the planning period primarily by means of bonds, commercial paper, bank loans, customer deposits in the direct banking business and the securitization of receivables in the financial services business; the focus will be on bonds and loans from globally and locally active banks. In view of the very good liquidity situation of the international capital markets and our strong creditworthiness, we expect a continuation of very attractive refinancing conditions in 2014. An additional goal is to continue securing a high degree of financial flexibility.

## Dividend

At the Annual Shareholders' Meeting on April 9, 2014, the Board of Management and the Supervisory Board will propose an increase in the dividend to €2.25 per share (prior year: €2.20). With this proposal, we are letting our shareholders participate in the Company's success while expressing our confidence about the ongoing course of business. We want our shareholders to participate appropriately in Daimler's financial success also in the coming years. In setting the dividend, we will aim to distribute approximately 40% of the net profit attributable to Daimler shareholders.

## Capital expenditure

In order to achieve our ambitious growth targets, we will expand our product range in the coming years and develop additional production and distribution capacities. We also want to make sure that we can play a leading role in the far-reaching technological transformation of the automotive industry. For this purpose, we will once again significantly increase our already very high investment in property, plant and equipment in the year 2014. The Mercedes-Benz Cars division and to a lower extent the Daimler Trucks division will contribute to this increase. In addition to capital expenditure, we are developing our position in the emerging markets by means of targeted financial investment in joint ventures and equity interests.

At the Mercedes-Benz Cars division, the focus of our capital expenditure will be on renewing and expanding our product range. The main projects include the preparations for the new C-Class family, the new smart models and further investment for our new compact cars. But substantial investment is planned also for the modernization and expansion of engine and transmission production at the plant in Untertürkheim, as well as for the expansion of our production capacities in the United States. After completing its Euro VI product offensive, Daimler Trucks will mainly invest in successor generations of existing products as well as the expansion and modernization of the plants, and new global component projects in 2014.

At Mercedes-Benz Vans, the focus will be on further developing the existing model range and expanding the sales and service organization outside Western Europe, especially in the United States, Russia, Latin America and China. Key projects at Daimler Buses are advance expenditures for new models and product enhancements.

## Research and development

With our research and development activities, our goal is to further strengthen Daimler's competitive position against the backdrop of upcoming technological challenges. We want to create competitive advantages above all by means of innovative solutions for low emissions and safe mobility. In addition, we intend to utilize the growth opportunities offered by worldwide automotive markets with new and attractive products that are tailored to the needs of our customers. In 2014, we will spend a very large amount on research and development, which will probably be in the magnitude of the previous year. Key projects at Mercedes-Benz Cars include the successor generation of the C-Class and the new smart models. In addition, we will invest considerable amounts in new low-emission and fuel-efficient engines, alternative drive systems and innovative safety technologies. Like at Mercedes-Benz Cars, research and development expenditure at Daimler Trucks is also likely to be in the magnitude of 2013. As before, the main areas here are the successor generations for existing products as well as developing and adapting new engine generations, with which we will further reduce fuel consumption and fulfill increasingly strict emission regulations. The further development of engines to meet future emission standards and to increase fuel efficiency is an important area of research and development also at Mercedes-Benz Vans and Daimler Buses. Alternative drive systems also play an important role, in particular at Daimler Buses.

## Workforce

Due to the anticipated business development, production volumes will continue rising in 2014. At the same time, we will significantly increase our efficiency and thus also productivity as a result of the programs we are carrying out in all divisions. Against this backdrop, we assume that we will be able to achieve our ambitious growth targets with a largely stable workforce. In the context of expanding our production network, new jobs will tend to be created primarily in North America and Asia. Workforce growth is likely to take place also at our joint ventures in China and Russia, whose employees are not included in the figures for the Daimler Group.

## Overall statement on future development

On the basis of the measures we initiated in 2013, we can look to 2014 and the following years with confidence. We made considerable progress with our growth and efficiency strategy in the year under review. In all of our automotive divisions, we are successfully facing the competition with new and extremely attractive products. At Mercedes-Benz Cars, we will gain new customers and further strengthen our worldwide market position with our new and very attractive models in the compact class. The new C-Class will ensure additional unit sales in 2014, and with the new S-Class, we are once again defining the benchmark in the segment of luxurious automobiles. Daimler Trucks is extremely well positioned with its existing product portfolio, the all-new range of Mercedes-Benz trucks (Actros, Arocs, Antos, Atego, Unimog and Econic), the new Freightliner Cascadia Evolution and the FUSO models from Chennai in India, and our products in the areas of buses and vans are worldwide leaders amongst the competition. Furthermore, as a result of extensive investment in our sales organization and production facilities, we have created the right conditions to effectively utilize the growth opportunities offered in Asia, Latin America and Eastern Europe in all our divisions. The continuation of a very high budget for research and development expenditure ensures that we will convince our customers also in the coming years with tailored products, new technologies and groundbreaking solutions for sustainable mobility.

To make sure that our targeted growth and the associated investment activity take place on a sound financial basis, we are implementing wide-ranging programs to enhance efficiency in all our divisions, whose effects were already apparent in 2013 and which will have a positive impact on earnings above all in the following years. In addition, we will focus our organization even more on customers and markets with the "Customer Dedication" initiative. This will make us faster and more flexible in the management of our business and in addressing customers' desires, and will create the right conditions for us to grow profitably in our core business and in new markets.

## Forward-looking statements:

This document contains forward-looking statements that reflect our current views about future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "can," "could," "plan," "project," "should" and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including an adverse development of global economic conditions, in particular a decline of demand in our most important markets; a worsening of the sovereign-debt crisis in the Eurozone; an exacerbation of the budgetary situation in the United States; a deterioration of our refinancing possibilities on the credit and financial markets; events of force majeure including natural disasters, acts of terrorism, political unrest, industrial accidents and their effects on our sales, purchasing, production or financial services activities; changes in currency exchange rates; a shift in consumer preference towards smaller, lower-margin vehicles; or a possible lack of acceptance of our products or services which limits our ability to achieve prices and adequately utilize our production capacities; price increases in fuel or raw materials; disruption of production due to shortages of materials, labor strikes or supplier insolvencies; a decline in resale prices of used vehicles; the effective implementation of cost-reduction and efficiency-optimization measures; the business outlook of companies in which we hold a significant equity interest; the successful implementation of strategic cooperations and joint ventures; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety; the resolution of pending government investigations and the conclusion of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe under the heading "Risk and Opportunity Report" in this Annual Report. If any of these risks and uncertainties materializes or if the assumptions underlying any of our forward-looking statements prove to be incorrect, the actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements since they are based solely on the circumstances at the publication date.