

DAIMLER

Daimler's transition to IFRS 15 (Revenue from Contracts with Customers)

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Summary

What is IFRS 15?

IFRS 15 is a new Standard regarding revenue recognition to be applied from January 1, 2018.

Major effects on Revenue and/or EBIT due to...

- Earlier recognition of sales incentives
- Earlier recognition of certain repurchase agreements
- Different accounting of Contract Manufacturing

Presentation

Financial Statements for 2017 retrospectively adjusted.

Retrospective application of IFRS 15

Financial Statements 2018 contain:

Transition effect of equity adjustment	Comparative Period 2017	Actuals 2018
1.1.2017	IFRS 15 (plus transition impacts)	IFRS 15

- Daimler will apply IFRS 15 for the first time for the financial year beginning January 1, 2018
- Restatement of comparative periods of Financial Statements 2018 (interim reports and annual report)
- Daimler used simplifications available under IFRS 15 for transition (e.g. that contracts completed before January 1, 2017 had not to be reassessed)

Income Statement FY 2017: Application of IFRS 15 leads to reduction of earnings mainly in consequence of transition effects

- in millions of euros -

	2017 (as reported)	2017 (adjusted)	Delta
Total revenue	164.330	164.154	-176 (1)
Cost of sales	-129.999	-129.626	373 (2)
Gross profit	34.331	34.528	197
Selling expenses	-12.965	-12.951	14
General administrative expenses	-3.809	-3.808	1
Research and non-capitalized development costs	-5.938	-5.938	0
Other operating income	2.824	2.259	-565 (3)
Other operating expense	-1.042	-1.043	-1
Profit/loss on equity-method investments, net	1.498	1.498	0
Other financial income/expense, net	-230	-210	20 (4)
Interest income/expense, net	-368	-368	0
Profit before income taxes	14.301	13.967	-334
Income taxes	-3.437	-3.350	87 (5)
Net profit	10.864	10.617	-247
thereof profit attributable to non-controlling interests	-339	-339	0
thereof profit attributable to shareholders of Daimler AG	10.525	10.278	-247
Earnings per share (in euros) for profit attributable to shareholders of Daimler AG	9,84	9,61	-0,23

Major effects:

- (1) - Earlier recognition of sales incentives
 - Different accounting of Contract Manufacturing
 - Reclassification of licenses from other operating income to revenue
 - Accounting for certain repurchase agreements as a sale (with a right of return) instead of a lease
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 - Accounting for certain repurchase agreements as a sale (with a right of return) instead of a lease
- (3) Reclassification of licenses from other operating income to revenue
- (4) Presentation of Cost of Hedging (effect from IFRS 9)
- (5) Deferred taxes on adjustments

Impact on earnings partially due to transition effect from recognition of sales incentives in Q1/2017

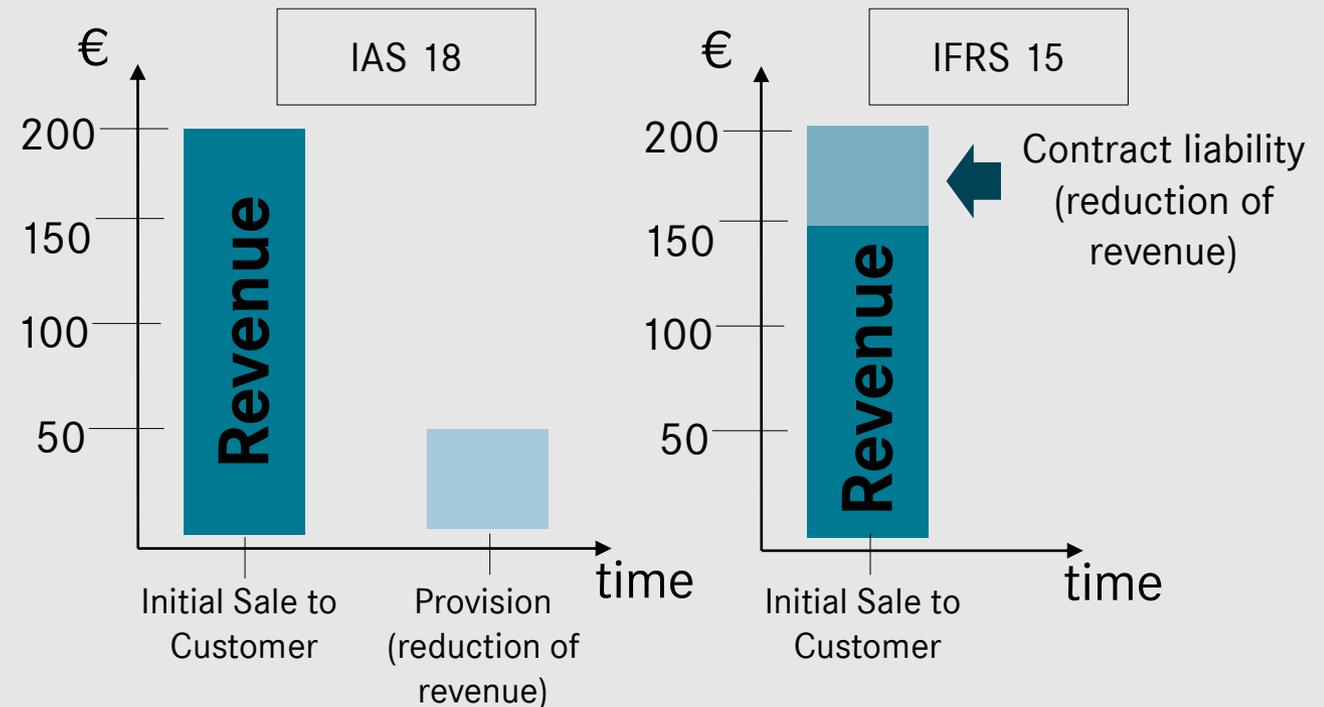
Balance Sheet as of December 31, 2017: Reclassifications required with introduction of new line item “contract liabilities”

- in millions of euros -	2017 (IAS 18)	2017 (IFRS 15)	Delta
Equity and liabilities			
Total equity	65.314	65.159	-155
Total non-current liabilities	103.186	102.562	-624
<i>thereof IFRS 15 relevant:*</i>			
Provisions	14.005	13.956	-49
Other financial liabilities	2.589	2.370	-219
Deferred tax liabilities	2.402	2.347	-55
Deferred income	5.802	1.668	-4.134
Contract liabilities IFRS 15	0	3.833	3.833
Total current liabilities	87.105	87.624	519
<i>thereof IFRS 15 relevant:*</i>			
Trade payables	12.474	12.451	-23
Provisions	10.612	8.180	-2.432
Other financial liabilities	8.933	6.905	-2.028
Deferred income	3.668	1.528	-2.140
Contract liabilities IFRS 15	0	7.375	7.375
Other liabilities	2.672	2.439	-233
Total equity and liabilities	255.605	255.345	-260

Earlier recognition of certain sales incentives

Concept

- 1 Deferral of revenue for the **expected** sales incentive is recognized as contract liability **instead** of provision
- 2 Revenue for sale to customer is limited to the level of confidence “highly probable”.
→ Contract liability is potentially recognized **earlier** than former provision!



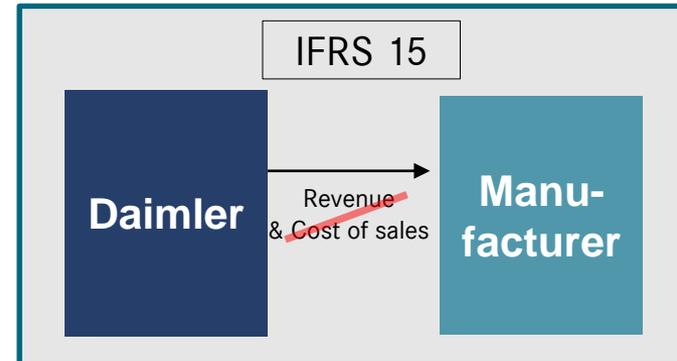
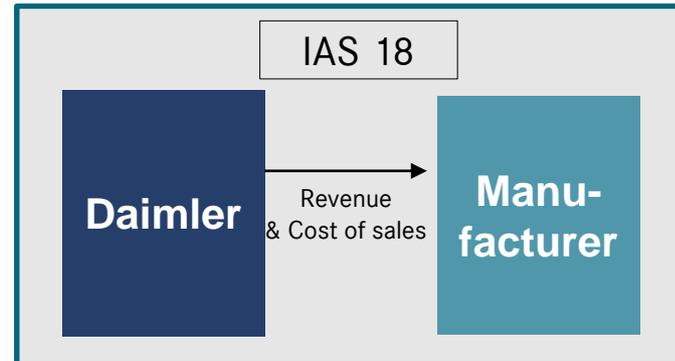
Contract Manufacturing

Definition Contract Manufacturing

In a contract manufacturing agreement Daimler sells assets to a third-party manufacturer from which Daimler buys back the manufactured products after completion of the commissioned work.

Accounting Issue

If the sale of assets is not accompanied by the transfer of control to the third-party manufacturer, no revenue will be recognized under IFRS 15:



Repurchase obligations partially treated different to Status Quo

Definition of Repurchase agreement

A repurchase agreement is a contract in which Daimler sells an asset and also **promises or has an option to repurchase the asset**

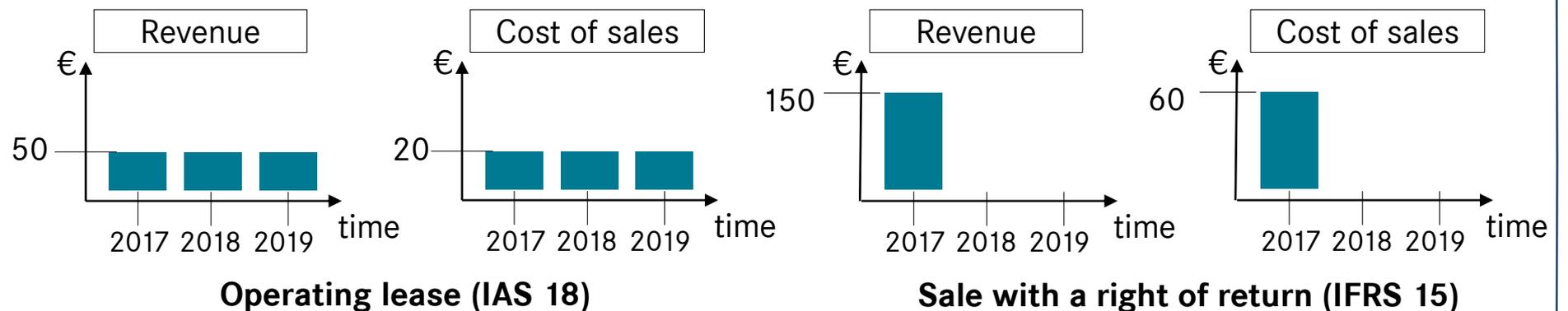
IAS 18

Repurchase agreements are generally accounted for as an **operating lease** in accordance with IAS 17

IFRS 15

Certain repurchase agreements might necessitate the reporting of a **sale (with a right of return)**

Simplified Example



Contract liabilities

Concept

- Contracts with customers (in scope of IFRS 15) will be presented in an entity's statement of financial position as a **contract liability**, a **contract asset (not significant at Daimler)**, or a **receivable**, depending on the **relationship between the entity's performance and the customer's payment**.
- Contract liability: Daimler has already received consideration from the customer **before the entity transfers goods or services**
- "Contract liabilities" is a new item in the statement of financial position

Examples for contract liabilities:

- Deferred revenue for service and maintenance contracts, extended warranty contracts
- Advance payments received
- Deferral of revenue with respect to variable consideration (e.g. former incentive provision)

The results stated in this document are provisional and have been neither approved by the Supervisory Board nor audited by the external auditors.

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 deterioration of our refinancing possibilities on the credit and financial markets; events of force majeure including natural disasters, acts of terrorism, political unrest, armed conflicts, industrial accidents and their effects on our sales, purchasing, production or financial services activities; changes in currency exchange rates; a shift in consumer preferences towards smaller, lower-margin vehicles; 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 for 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 for 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 or of investigations requested by governments 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 the current 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 date of publication.