Services on the basis of a standardized risk management process. In this process, minimum requirements are defined for the sales financing and leasing business and standards are set for credit processes as well as for the identification, measurement and management of risks. Key elements for the management of credit risks are appropriate creditworthiness assessments, supported by statistical analyses and evaluation methods, as well as structured portfolio analysis and monitoring.

Financial country risk management includes various aspects: the risk from investments in subsidiaries and joint ventures, the risk from the cross-border financing of Group companies in risk countries, and the risk from direct sales to customers in those countries. The Credit Committee sets country limits for this cross-border financing. Daimler has an internal rating system that divides all countries in which it operates into risk categories. Equity capital transactions in risk countries are hedged against political risks with the use of investment-protection insurance such as the German government's investment guarantees. Some cross-border receivables due from customers are protected with the use of export-credit insurance, first-class bank guarantees and letters of credit. In addition, a committee sets and restricts the level of hard-currency credits granted to financial services companies in risk countries.

Additional information on the management of market-price risks, credit default and liquidity risks is provided in Note 32 of the Notes to the Consolidated Financial Statements.

Cash flows

Cash provided by operating activities ↗ C.24 increased compared with the previous year by €4.4 billion to €3.3 billion. The growth in net profit before income taxes includes non-cash effects of €3.4 billion from the remeasurement of the EADS shares. The development of working capital had positive effects. This was due to an increase in trade payables and a smaller increase in inventories; there were opposing effects from the increase in trade receivables. Growth in new business in the area of leasing and sales financing was slightly above the high level of the previous year. The generally positive development of other operating assets and liabilities was mainly connected with the expansion of business and partially related to invoicing. Value-added tax included and not yet paid to the tax authorities as well as higher sales with residual-value guarantees and with service and maintenance agreements (due to the generally higher unit sales) already led to payments received. For dealer bonuses, expenses were taken into consideration that were not yet connected with payments. Furthermore, contributions to pension funds were lower than in 2012. In the previous year, special contributions of €0.5 billion were made in connection with pension plans to the plan assets of additional German entities. A positive effect resulted from lower payments for income taxes; the year 2013 was influenced by reimbursements of advance payments in Germany.

Cash used in investing activities ↗ C.24 amounted to €6.8 billion (2012: €8.9 billion). The decrease compared with the prior year was primarily the result of purchases and sales of securities carried out in the context of liquidity management, which overall led to significantly lower cash outflows (net). The sale of the remaining EADS shares resulted in higher proceeds in 2013 than in 2012. Compared with the investments in companies made in 2012, the acquisition of the 12% stake in BAIC Motor Corporation Ltd. (BAIC Motor) for €0.6 billion and the capital increase at Beijing Benz Automotive Co., Ltd. (BBAC) led to higher cash outflows in 2013. Furthermore, slightly higher investment in property, plant and equipment and in intangible assets resulted in higher cash outflows.

C.24

Condensed consolidated statement of cash flows

In millions of euros	2013	2012	13/12 Change
Cash and cash equivalents at beginning of year	10,996	9,576	+1,420
Net cash provided by operating activities	3,285	-1,100	+4,385
Net cash used for investing activities	-6,829	-8,864	+2,035
Net cash provided by financing activities	3,855	11,506	-7,651
Effect of exchange-rate changes on cash and cash equivalents	-254	-122	-132
Cash and cash equivalents at end of year	11,053	10,996	+57

Cash flows from financing activities ↗ C.24 resulted in a net cash inflow of €3.9 billion (2012: €11.5 billion). The decrease mainly reflects the development of long-term borrowing (net). The main factor was that repayments of existing long-term loans increased while new borrowing was slightly higher than in the previous year. An additional factor was that dividend payments to non-controlling interests of subsidiaries decreased.

Including negative currency effects, cash and cash equivalents of €11.1 billion as of December 31, 2013 were at the level of the previous year. Total liquidity, which also includes marketable debt securities, rose by €1.5 billion to €18.1 billion.

C.25

Free cash flow of the industrial business

In millions of euros	2013	2012	13/12 Change
Net cash provided by operating activities	10,313	7,527	+2,786
Net cash used for investing activities	-6,767	-8,166	+1,399
Changes in marketable debt securities	1,548	2,699	-1,151
Other changes	-252	-608	+356
Free cash flow of the industrial business	4,842	1,452	+3,390

C.26

Net liquidity of the industrial business

In millions of euros	Dec. 31, 2013	Dec. 31, 2012	13/12 Change
Cash and cash equivalents	9,845	9,887	-42
Marketable debt securities	5,303	3,841	+1,462
Liquidity	15,148	13,728	+1,420
Financing liabilities	-1,324	-2,883	+1,559
Market valuation and currency hedges for financing liabilities	10	663	-653
Financing liabilities (nominal)	-1,314	-2,220	+906
Net liquidity	13,834	11,508	+2,326

The parameter used by Daimler to measure the financing capability of the Group's industrial activities is the **free cash flow of the industrial business** ↗ C.25, which is derived from the reported cash flows from operating and investing activities. The cash flows from the acquisition and sale of marketable debt securities included in cash flows from investing activities are excluded, as those securities are allocated to liquidity and changes in them are thus not a part of the free cash flow.

Other adjustments relate to additions to property, plant and equipment that are allocated to the Group as their beneficial owner due to the form of their underlying lease contracts. Furthermore, effects from the financing of dealerships within the Group are adjusted. In addition, the cash flows to be shown under cash provided by financing activities in connection with the acquisition or sale of interests in subsidiaries without the loss of control are included in the calculation of the free cash flow.

The free cash flow of the industrial business amounted to €4.8 billion in 2013. The positive profit contributions of the automotive divisions were offset by the increase in working capital, defined as the net change in inventories, trade receivables and trade payables, with a total amount of €0.6 billion. Furthermore, the free cash flow was influenced by the positive net change of other operating assets and liabilities which were connected with the expansion of business and partially related to invoicing. Positive effects resulted from the sale of trade receivables of companies by the industrial business to Daimler Financial Services. The free cash flow of the industrial business was also positively influenced by the cash inflow from the sale of the remaining EADS shares. There were negative effects from high investments in property, plant and equipment and intangible assets, the acquisition for €0.6 billion of a 12% interest in BAIC Motor and the capital increase at Beijing Benz Automotive Co., Ltd. (BBAC). In addition, income tax and interest payments reduced the free cash flow of the industrial business.

The **net liquidity of the industrial business** ↗ C.26 is calculated as the total amount as shown in the statement of financial position of cash, cash equivalents and marketable debt securities included in liquidity management, less the currency-hedged nominal amounts of financing liabilities.

To the extent that the Group's internal refinancing of the financial services business is provided by the companies of the industrial business, this amount is deducted in the calculation of the net debt of the industrial business.

Compared with December 31, 2012, the net liquidity of the industrial business rose by €2.3 billion to €13.8 billion The increase was mainly caused by the positive free cash flow of the industrial business; there were opposing effects from the dividend payment to the shareholders of Daimler AG for the year 2012 (minus €2.3 billion) and the dividend payment to minority shareholders of subsidiaries (minus €0.3 billion).

Net debt at Group level, which primarily results from refinancing the leasing and sales financing business, increased compared with December 31, 2012 by €0.6 billion to €59.6 billion. ↗ C.27