

The possible risks include negative financial developments for the equity interests of the Daimler Group. If cooperations (joint ventures) do not develop as desired or if the development of companies does not meet expectations, growth targets can be negatively impacted. Risks exist in connection with equity interests in the segments Mercedes-Benz Cars and Daimler Trucks. The cases involved are subject to a continuous monitoring process so that a company can be quickly supported if required and its profitability can be protected.

The development of production facilities and joint ventures in the Chinese market is exposed to risks. Efficient production processes are established to deal with and reduce those risks. Furthermore, dependencies between contracting parties and possible changes in the framework conditions in China, in which the danger of increased costs is inherent, must be included in the local decision processes.

Financial risks and opportunities

The following section deals with the financial risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table [C.53](#).

In principle, the Group's operating and financial risk exposures underlying the financial risks and opportunities can be divided into in symmetrical and asymmetrical risk and opportunity profiles. With the symmetrical risk and opportunity profiles (e.g. currency exposures), risks and opportunities exist equally, while with the asymmetrical risk and opportunity profiles (e.g. credit and liquidity exposures), risks outweigh the opportunities. Daimler is generally exposed to risks and opportunities from changes in market prices such as currency exchange rates, interest rates, commodity prices and share prices. Market-price changes can have a negative or positive influence on the Group's profitability, cash flows and financial position. Daimler manages and monitors market-price risks and opportunities primarily in the context of its operational business and financing activities, and applies derivative financial instruments for hedging purposes, whereby both market-price risks and opportunities are limited.

In addition, the Group is exposed to credit and liquidity risks. As part of the risk management process, Daimler regularly assesses these risks by considering changes in key economic indicators and market information. Market-sensitive instruments held in funds set up to cover pension and health-care benefits, including equities and interest-bearing securities, are not included in the following analysis.

Exchange rate risks and opportunities. The Daimler Group's global reach means that its business operations and financial transactions are connected with risks arising from fluctuations of foreign exchange rates, especially of the US dollar and other important currencies against the euro. An exchange rate risk or opportunity arises in the operating business primarily when revenue is generated in a currency different from that of the related costs (transaction risk). This applies in particular to the Mercedes-Benz Cars division, as a major portion of its revenue is generated in foreign currencies while most of its production costs are incurred in euros. The Daimler Trucks division is also exposed to such transaction risks, but only to a minor degree because of its worldwide production network. Currency exposures are gradually hedged with suitable financial instruments (predominantly foreign exchange forwards and currency options) in accordance with exchange rate expectations, which are constantly reviewed. Exchange rate risks also exist in connection with the translation into euros of the net assets, revenues and expenses of the companies of the Group outside the euro-zone (translation risk); these risks are not generally hedged.

Interest rate risks and opportunities. Daimler holds a variety of interest rate sensitive financial instruments to manage the cash requirements of its business operations on a day-to-day basis. Most of these financial instruments are held in connection with the financial services business of Daimler Financial Services, whose policy is generally to match funding in terms of maturities and interest rates. However, to a limited magnitude, the funding does not match in terms of maturities and interest rates, which gives rise to the risk of changes in interest rates. The funding activities of the industrial business and the financial services business are coordinated at Group level. Derivative interest rate instruments such as interest rate swaps and forward rate agreements are used to achieve the desired interest rate maturities and asset/liability structures (asset and liability management).

C.53

Financial risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
Exchange rate risks	Low	High	Exchange rate opportunities	High
Interest rate risks	Low	Low	Interest rate opportunities	Low
Share price risks	Low	Low	Share price opportunities	Low
Commodity price risks	Low	Low	Commodity price opportunities	Low
Liquidity risks	Low	High	Liquidity opportunities	-
Credit risks	Low	Low	Credit opportunities	-
Risks relating to pension plans	Low	High	Opportunities relating to pension plans	High
Risks from changes in credit ratings	Low	Low	Opportunities from changes in credit ratings	Low

Equity price risks and opportunities. Daimler holds investments in shares of companies, which are predominantly classified as long-term investments (especially Nissan and Renault) or which are included in the consolidated financial statements using the equity method (primarily Kamaz and Tesla). Therefore, the Group does not include these investments in an equity price risk analysis.

Commodity price risks and opportunities. Associated with Daimler's business operations, the Group is exposed to changes in the prices of consignments and commodities. The Group addresses these procurement risks by means of concerted commodity and supplier risk management. To a minor magnitude, derivative commodity instruments are used to reduce some of the Group's commodity risks, primarily the risks associated with the purchase of metals.

Liquidity risks. In the normal course of business, we make use of bonds, commercial paper and securitized transactions as well as bank credits in various currencies, primarily to refinance the leasing and sales-financing business. A negative development of the capital markets could increase the Group's financing costs. More expensive refinancing would also have a negative effect on the competitiveness and profitability of our financial services business if we were unable to pass on the higher refinancing costs to our customers; a limitation of the financial services business would have a negative impact on the automotive business.

Credit risks. The Group is exposed to credit risks which result primarily from its financial services activities and from its operating business. In addition, credit risks also arise from the Group's liquid assets. Should defaults occur, this would negatively affect the Group's financial position, cash flows and profitability. In recent years, the limit methodology has been continually further developed in order to counteract the ever worsening creditworthiness of the banking sector. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. Most liquid assets are held in investments with an external rating of A or better.

Further information on financial risks, risk-limiting measures and the management of these risks is provided in [Note 32](#) of the Notes to the Consolidated Financial Statements. Information on the Group's financial instruments is provided in [Note 31](#).

Risks and opportunities relating to the pension plans.

Daimler has pension benefit obligations, and to a smaller magnitude obligations relating to healthcare benefits, which are largely covered by plan assets. The balance of obligations less plan assets constitutes the funded status for these employee benefit plans. Even small changes in the assumptions used for the valuation of the benefit plans such as a change in the discount rate could have a negative or positive effect on the funded status of our pension and health-care plans or could lead to changes in the periodic net pension expense in the following financial year. The market value of plan assets is determined to a large degree by developments in the capital markets. Unfavorable or favorable developments, especially relating to equity prices and fixed-interest securities, could reduce or increase that market value. Plan assets at December 31, 2013 did not include significant investments in government bonds that are currently affected by the European sovereign debt crisis; all government bonds denominated in euros have a rating of at least AA on the balance sheet date. Further information on the pension plans is provided in [Note 22](#) of the Notes to the Consolidated Financial Statements.

Risks and opportunities from changes in credit ratings.

Daimler's creditworthiness is assessed by the rating agencies Standard & Poor's Rating Services, Moody's Investors Service, Fitch Ratings and DBRS.

There are risks in connection with potential downgrades, which could have a negative impact on the Group's financing. Advance investment expenditures related to the Group's growth strategy are also connected with risks for our credit ratings if the earnings and cash flows anticipated from the growth cannot be realized.

Opportunities exist in connection with upgrades of the credit ratings issued by the rating agencies, because this could lead to lower borrowing costs for the Group. If, with the help of the new products in the automotive divisions, the Group's business development should significantly surpass the expectations of the rating agencies, opportunities could arise for the ratings.