However, responsibility for operational risk management for risks threatening the existence of the Group and for the control and risk management processes with regard to the corporate accounting process remains directly with the divisions, corporate functions and legal entities. The measures taken by the GRMC ensure that relevant risks and any existing process weaknesses in the corporate accounting process are identified and eliminated as early as possible.

In the Board of Management and the Audit Committee of the Supervisory Board of Daimler AG, regular reports are given regarding the current risk situation and the effectiveness, functions and appropriateness of the internal control and risk management system. Furthermore, the responsible managers regularly discuss the risks of business operations with the Board of Management.

The Audit Committee of the Supervisory Board is responsible for **monitoring the internal control and risk management system**. The Internal Auditing department monitors whether the statutory conditions and the Group's internal guidelines are adhered to in the Group's entire monitoring and risk management system. If required, measures are then initiated in cooperation with the relevant management. The external auditors audit the system for the early identification of risks that is integrated in the risk management system for its fundamental suitability to identify risks threatening the existence of the Group; in addition, they report to the Supervisory Board on any significant weaknesses that have been discovered in the internal control and risk management system.

Opportunity management system

In 2013, the system of opportunity management, which is related to risk management, was expanded at Daimler in order to be able to consider risks and opportunities together.

Opportunity management at the Daimler Group is based on the risk management system with regard to material risks and risk threatening Daimler's existence. The objective of opportunity management is to recognize at an early stage the possible opportunities arising in business activities as a result of positive developments, and to utilize them as optimally as possible for the Group by taking appropriate measures. Taking advantage of opportunities can lead to goals being achieved or in the ideal case being overachieved. At the Daimler Group, a continuous process exists for opportunity management which includes all the opportunities that are relevant and implementable in the view of the supplying entities. Within the context of the operational planning, potential opportunities are identified in addition to risks. Those opportunities are considered that are possible but which have not so far been included in the planning. Unlike with risks, opportunities are assessed in relation only to their impact; there is no consideration of their probability of occurrence. The assessment of the impact takes place according to the principles described and is based on the same categories as the risk management system.
↗ C.50

The tasks of the persons responsible for opportunity management is, in addition to identifying and assessing the opportunities, also to develop and if appropriate initiate measures designed to utilize an opportunity, enhance an opportunity, or to implement it fully or partially in cooperation with a partner. When the utilization of opportunities depends on other topics whose development cannot be directly influenced by the reporting unit, those opportunities are to be documented and monitored. When the measures to be taken to utilize an opportunity are not assessed as being economical, such an opportunity is no longer pursued. The development of opportunities and the status of measures being taken are monitored at regular intervals.

Risks and opportunities

The following text describes in detail the risks and opportunities that can have a significant influence on the profitability, cash flows and financial position of the Daimler Group. In general, the reporting of risks and opportunities takes place for the individual segments. If no segment is explicitly mentioned, the following risks and opportunities relate to all the automotive divisions: Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Buses.

In addition, risks and opportunities that are not yet known about or assessed as not material can influence our profitability, cash flows and financial position.

Industry and business risks and opportunities

The following text deals with the industry and business risks of the Daimler Group. A quantification of these risks and opportunities is shown in table ↗ C.51.

Economic risks and opportunities. Economic risks and opportunities constitute the framework for the risks and opportunities listed in the following categories and flow as premises into the quantification of these risks and opportunities.

With regard to the **world economy**, Daimler along with the majority of economic research institutes anticipates significant acceleration of growth. Economic developments in 2013 are described in detail in the "Economic Conditions and Business Development" section of this Management Report; growth assumptions for 2014 are explained in the Outlook section (see page 142). As the economic conditions have a significant influence on automobile sales markets and their development is one of the Group's biggest risks and opportunities, the assessment of the economy is connected with potential risks and opportunities.

Economic risks and opportunities are linked with assumptions and forecasts on the **general development** of the individual topics. Overall, economic risks for the business environment have tended to decrease slightly compared with the prior year and the opportunities for the world economy have increased slightly.

With the unexpectedly smooth increase in the fiscal debt ceiling in the **United States**, a key individual risk was already averted early in 2014. But the latest weakening of some leading indicators has shown that the revival of the US economy is still susceptible to disruptions. One crucial factor will be how the planned exit from the expansive monetary policy is managed and whether – as hoped – investors and consumers boost the rate of growth. If this revival does not occur, the economic upturn would be much less pronounced. As the Daimler Group generates a considerable volume of its unit sales in the United States, especially in the Mercedes-Benz Cars and Daimler Trucks divisions, and such a lack of dynamic growth could also spread to other regions, such a development would have significant consequences. However, if investment activity in the United States is more dynamic than previously assumed, this could result in substantially stronger growth. The consequential positive effects on employment and income would boost demand for the automotive divisions.

If there is no continuation of the required consolidation of state budgets and reform efforts in the countries of the **European Monetary Union**, this could cause renewed turmoil in the financial markets, increasing refinancing costs through rising capital-market interest rates, and thus jeopardizing the already fragile economic recovery. The European market continues to be very important for Daimler across all divisions; for the Mercedes-Benz Cars, Mercedes-Benz Vans and Daimler Buses divisions, it is still the biggest sales market in fact. An opportunity that is difficult to assess is to be seen in a significantly improved economic development in the euro zone. If the reform measures already initiated take effect faster and more effectively than so far assumed, economic growth could accelerate, which would benefit the development of investment and demand for motor vehicles in the important European market.

A significant growth slowdown in **Japan**, triggered by the failure of the country's expansive monetary and fiscal policy and the lack of structural reforms, is to be regarded as more of a regionally limited risk. A regionally limited opportunity exists in the possibility of a distinct acceleration of economic growth in Japan. This could be caused by a significant increase in investment activity, resulting from the targeted structural reforms and the expansive monetary and fiscal policies that have already been initiated.

Due to the significant growth of its importance in recent years, an economic slump in **China** would represent a considerable risk for the world economy. Such a crisis could be triggered by difficulties with the planned economic restructuring away from high investment and credit and towards more consumption. But uncertainties surrounding the Chinese finance sector, the indebtedness of some provinces and a renewed overheating of the real-estate market are conceivable causes. On the other hand, we see a further opportunity in an even stronger development of the Chinese economy. This could be triggered by the reform measures taking rapid effect, accompanied by increased consumption.

Another risk is to be seen in a renewed weakening of growth in major **emerging markets**. There were disappointing developments already during 2013, especially in countries such as India, Russia and Brazil, but other economies such as Indonesia and Turkey also developed below their possibilities. Another factor in 2014 is that political elections are taking place in major emerging countries (India, South Africa, Turkey, Indonesia and Brazil), which tends to increase the uncertainty about ongoing developments, putting those currencies under additional pressure and not least reducing investment activity. As Daimler is already very active in these countries or their markets play a strategic role, such a scenario represents a risk. An opportunity is to be seen in the implementation of reforms occurring in some important emerging economies. If structural reforms are consistently carried out in countries such as India, Russia and Brazil, flows of global capital into these countries would increase again, resulting in new scope for growth.

An exit from the current **expansive monetary policy** with too little preparation or carried out too quickly is to be seen as an additional risk. Announcements by the US Federal Reserve that bond buybacks would be reduced triggered unrest in the financial markets already in 2013. Long-term interest rates increased and there were capital outflows and currency depreciation in the emerging markets. In some countries, this also resulted in additional inflationary pressure, which, in combination with a more restrictive interest policy, reduced the potential for growth. If a decrease in global liquidity in 2014 leads to more substantial effects, this could significantly reduce GDP growth through the chain of cause and effect described above, especially in the emerging economies. Increased volatility in the financial markets would also dampen investor and consumer confidence, with an impact on the global economy.

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Industry and business risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
General market risks	Medium	High	General market opportunities	High
Risks relating to leasing and sales financing	Low	Low	Opportunities relating to leasing and sales financing	Low
Procurement market risks	Medium	Medium	Procurement market opportunities	Low
Risks relating to the legal and political framework	Low	High	Opportunities relating to the legal and political framework	Low

In view of the very low inflation rate in the European Monetary Union (EMU) at the end of 2013, the danger of **deflation** has been discussed, above all in the media. A lasting and broad-based fall in prices would constitute a considerable threat to the economic recovery of the EMU.

General market risks and opportunities. The situation of the world economy is affected by volatilities, leading to risks but also opportunities in the development of demand for motor vehicles.

The assessment of **market risks and opportunities** is connected with assumptions and forecasts on the overall development of markets in the various regions. The potential effects of the risks on the development of the Daimler Group's unit sales are included proportionately in risk scenarios. The danger of worsening market developments generally exists for all the divisions of the Daimler Group. Markets and competitors are therefore continuously analyzed and monitored; if necessary, specific marketing and sale programs are implemented. Due to the competitive pressure in the automotive markets, it is essential that production and cost structures are regularly and successfully adapted to the changing conditions. Clear strategies have been formulated for all the divisions. Each division consistently pursues the goal of growing profitably and increasing its efficiency.

One effect of the recent crisis years is that the **financial situation of some dealers and vehicle importers** has worsened. As a result, supporting actions still cannot be ruled out, which would negatively impact the profitability, cash flows and financial position of the Daimler Group. Details of the risk and opportunity situation of our suppliers are provided in the section "Procurement market risks and opportunities."

In addition to these issues affecting all of the segments, segment-specific risks also exist. In the Mercedes-Benz Cars division, they include **increasing competitive pressure** with the danger that sales will have to be promoted by means of more attractive financing packages and other sales incentives going beyond what is currently offered. Measures taken to support the segment's unit sales would adversely affect the projected earnings. Depending on the magnitude of regional unit sales, various measures are taken to support weaker markets. They include the use of new sales channels, actions designed to strengthen brand awareness and brand loyalty, as well as sales and marketing campaigns. These measures can also be extended to securing the business in the area of after sales.

The Daimler Trucks division is also subject to increased competitive pressure and the resulting risk that prices and cost savings may not be achieved as expected. The same applies to the Mercedes-Benz Vans and Daimler Buses divisions. The measures described apply to all segments. The Daimler Buses segment also sees uncertainty regarding the achievement of its planned earnings targets, due to political and economic uncertainties and possible increases in material prices.

Further risks and opportunities at Mercedes-Benz Cars relate to the **development of the used-car market**. In the division's planning, certain assumptions are made on the expected level of prices, on which basis the cars returned in the leasing business are valued. If general market developments lead to a negative or positive deviation from the assumptions, there is a risk of lower residual values or an opportunity of higher residual values. Depending on the region and current market situation, the countermeasures taken generally include continuous market monitoring as well as, if required, price-setting strategies designed to regulate vehicle inventories.

As the target achievement of the Daimler Financial Services division is closely connected with the development of business in the automotive divisions, the existing **volume risks and opportunities** are also reflected in the Daimler Financial Services segment. In this context, Daimler Financial Services participates in marketing expenses, especially for advertising campaigns in the media.

In general, there is also the possibility that the overall market for the automotive industry will develop better than assumed in the internal forecasts upon which the Group's target planning is based. This includes positive deviations from planning premises. China for example is regarded as a market offering many potential opportunities. The existing **market opportunities** for the companies of the Daimler Group can only be utilized if production activities are organized accordingly and the gaps between demand and supply can be recognized and covered in time. This could require increases in production volumes. The Mercedes-Benz Cars division sees the possibility of a market opportunity for sales of additional vehicles in various model series. Opportunities exist also for Mercedes-Benz Vans on the basis of positive market developments.

The possibility of higher unit sales of vehicles exists in the Daimler Trucks segment as a result of improved market developments or changed conditions in the market. The measures that could be taken by the Daimler Group to utilize this potential opportunity include a combination of local sales and marketing actions and central strategic product and capacity planning.

Risks and opportunities relating to the leasing and sales financing business. In connection with the sale of vehicles, Daimler also offers its customers a wide range of financing possibilities – primarily leasing and financing the Group's products. In connection with the stated risks for the development of the used-vehicle market, in particular for the automotive divisions, there is the risk that the prices realizable for used vehicles at the end of leasing contracts are below their book values (**residual-value risk**). In connection with the management of vehicles returned at the end of leasing contracts, opportunities also arise if the prices that can be obtained when the vehicles are resold are above their carrying values, so that the resale results in additional earnings. Another risk in the financial services business consists of a borrower's worsening creditworthiness, so that some or all of a receivable might not be recoverable due to a customer's insolvency (**default risk or credit risk**). Daimler counteracts residual-value risks and credit risks by means of appropriate market analyses, creditworthiness checks on the basis of standardized scoring and rating methods, and the collateralization of receivables. Another risk connected with the leasing and sales-financing business is the possibility of increased **refinancing costs** due to potential changes in interest rates. An adjustment of credit conditions for customers in the leasing and sales-financing business due to higher refinancing costs could reduce the new business and contract volume of Daimler Financial Services, also reducing the unit sales of the automotive divisions. Risks and opportunities could also arise from of a **lack of matching maturities with our refinancing**. The risk of mismatching maturities is minimized by coordinating our refinancing with the periods of financing agreements, from the perspective of interest rates as well as liquidity. Any remaining risks of changes in interest rates are managed with the application of derivative financial instruments. Further information on credit risks and the Group's risk-minimizing actions is provided in Note 32 of the Notes to the Consolidated Financial Statements.

Procurement market risks and opportunities. Procurement market risks arise for the Group in particular from **fluctuations in prices of raw materials**. The economy-related fall in raw material prices in 2011 continued with increased volatility through 2012 and into the year 2013. On the basis of the more stable development of the European Monetary Union and positive data from the US economy and labor market, this trend slowly reversed and then turned into a sideways movement of raw material prices in the second half of 2013. Only small opportunities are anticipated in the raw material markets in view of the situation of the world economy.

Given the intensive influence of institutional investors, which is reflected in growing demand for commodity investments and is thus increasing price volatility in the raw material markets, the outlook for price developments remain uncertain. Vehicle manufacturers are generally limited in their ability to pass on the higher costs of commodities and other materials in higher prices for their products because of the strong competitive pressure in the international automotive markets. A drastic increase in raw material prices would at least temporarily result in a considerable reduction in economic growth.

Daimler continues to counteract procurement risks by means of targeted commodity and supplier risk management. The Group attempts to reduce its dependency on individual materials in the context of commodity management, by making appropriate technological progress for example. Daimler protects itself against the volatility of raw material prices by entering into long-term supply agreements, which make short-term risks for material supplies and the effects of price fluctuations more calculable. Furthermore, the Group makes use of derivative price-hedging instruments for certain metals.

Supplier risk management aims to identify suppliers' potential financial difficulties at an early stage and to initiate suitable countermeasures. Also after the recent crisis years, the situation of some of our suppliers is still difficult due to the tough competitive pressure. This has necessitated individual or joint **support actions** by vehicle manufacturers to ensure their own production and sales. In the context of supplier risk management, regular reporting dates are set for suppliers depending on our assessment of them, in which key performance indicators are reported to Daimler and any required support actions are decided upon.

Risks and opportunities related to the legal and political framework. The risks and opportunities from the legal and political framework have a considerable impact on Daimler's future business success. Regulations concerning vehicles' **emissions, fuel consumption and safety** play a particularly important role. Complying with these varied and often diverging regulations all over the world requires strenuous efforts on the part of the automotive industry. Daimler expects to expend an even larger proportion of the research and development budget to ensure the fulfillment of these regulations. Many countries have already implemented stricter regulations to reduce vehicles' emissions and fuel consumption, or are now doing so.

For example, new legislation in the United States on greenhouse gases and fuel consumption stipulates that new car fleets in the United States may only emit an average of 163 grams of carbon dioxide per mile as of 2025 (approximately 100 grams CO_2 per kilometer). These new regulations will require an average annual reduction in CO_2 emissions as of 2017 for cars of 5% and for SUVs and pickups at first of 3.5% (this rather lower rate applies until 2022). This will hit the German premium manufacturers and thus also the **Mercedes-Benz Cars** division harder than for example the US manufacturers. As a result of strong demand for large, powerful engines in the United States and Canada, financial penalties cannot be ruled out.

Regulations on the CO_2 emissions of new cars also exist in the EU. For 2015, all new cars in Europe will have to meet a fleet average of 130 g CO_2/km. The relevant limit for Daimler depends on the portfolio of cars we sell in the European Union and will depend on vehicle weight. Furthermore, the EU Parliament and the EU Council of Ministers are currently dealing with an EU regulation proposed by the EU Commission calling for fleet averages to be reduced to 95 g CO_2/km by the year 2020. Daimler will have to pay penalties if it exceeds its limits.

For the Chinese market, the authorities have defined fleet average fuel consumption as of 2015 of 6.9 liters per 100 kilometers (approximately 160 g CO_2/km) as the industry's target for new cars. As the legislative procedure for 2015 has not yet been concluded, there is a risk that although each car will be calculated for the average of the fleet, it must individually at least meet the previous limits, posing a big challenge for cars with powerful engines. Sanctions have not yet been announced. For the year 2020, a new, very demanding target has been set of 5.0 l/100 km (approximately 117 g CO_2/km), although the exact details are still under discussion. Similar legislation exists or is being prepared in many other countries, for example in Japan, South Korea, India, Canada, Switzerland, Mexico, Saudi Arabia, Brazil and Australia.

Daimler gives these targets due consideration in its product planning. The increasingly ambitious targets require significant numbers of plug-in hybrids or cars with other types of electric drive. The market success of these drive systems will be primarily determined by regional market conditions, for example the battery-charging infrastructure and state support. But as market conditions cannot be predicted with certainty, a residual risk exists.

Pursuant to EU Directive 2006/40/EC, since January 1, 2011, vehicles only receive a type approval if their air-conditioning units are filled with a **refrigerant** that meets certain criteria with regard to climate friendliness. The directive calls for an introductory period until December 31, 2016 for such refrigerants to be used in all new vehicles. Mercedes-Benz Cars had originally planned to use the refrigerant R1234yf in its new vehicle models as early as possible and therefore did not intend to make use of this transitional period. However, due to the safety risks identified by Mercedes-Benz Cars in 2012, Daimler has decided not to use refrigerant R1234yf in its vehicles and has started with the development of CO_2 air-conditioning systems. At present, the Group does not assume that this will result in any significant effects on its financial position, cash flows or profitability.

Strict regulations for the reduction of vehicles' emissions and fuel consumption are connected with risks also for the **Daimler Trucks** division. For example, legislation was passed in Japan in 2006 and in the United States in 2011 for the reduction of greenhouse-gas emissions and fuel consumption by heavy commercial vehicles. In China, legislation has been drafted which is likely to affect our exports to that country and require additional expenditure as of 2015. The European Commission is currently working on methods for measuring the CO_2 emissions of heavy commercial vehicles that will probably have to be applied as of 2017. The Group has to assume that the statutory limits will be very difficult to meet in some countries.

Although worldwide statutory safety regulations require a certain level of expenditure; Daimler does not anticipate any additional risks in this respect due to its longstanding strong focus on vehicle safety.

Very demanding regulations for CO_2 emissions are also planned for light commercial vehicles; especially in the long term, this will present a challenge for the **Mercedes-Benz Vans** division, which primarily serves the heavy segment of N1 vehicles. The European fleet of N1 vehicles may not emit an average of more than 175 g CO_2/km as of 2017 and no more than 147 g CO_2/km as of 2020; penalty payments may otherwise be imposed.

In addition to emission, consumption and safety regulations, **traffic-policy restrictions** for the reduction of traffic jams and pollution are becoming increasingly important in cities and urban areas of the European Union and other regions of the world. Drastic measures are increasingly being taken, such as general vehicle-registration restrictions like in Beijing, Guangzhou or Shanghai, and can have a dampening effect on the development of unit sales, especially in the growth markets.

Daimler continually monitors the development of statutory and political conditions and attempts to anticipate foreseeable requirements and long-term targets at an early stage in the process of product development. The biggest challenge in the coming years will be to offer an appropriate range of drive systems and the right product portfolio in each market, while fulfilling customers' wishes, internal financial targets and statutory requirements. With an optimal product portfolio and market-launch strategy, competitive advantages may also arise.

The position of the Daimler Group in key foreign markets could also be affected by an **increase in bilateral free-trade agreements** without the involvement of the European Union. This occurs for example if two Asian countries or regions abolish their import duties. Imports of vehicles from the EU would then suffer cost disadvantages in the amount of the import duties, as they would still have to be paid on exports of goods exported from Europe while trading between the Asian parties to such an agreement would be free of those duties.

Furthermore, the danger exists that individual countries will attempt to defend their competitiveness in the world's markets by resorting to **interventionist and protectionist actions**. Particularly in the markets of developing and emerging countries, we are increasingly faced with tendencies to limit imports or at least reduce the rate of growth of imports, and to attract direct foreign investment by means of appropriate **industrial policies**. For example, Argentina demands that imports and exports are in balance. In Brazil, the current tax on industrial products can be reduced by up to 32 percentage points with the provisos of local production, procurement and research and development. As of 2014 in Russia, for locally produced vehicles, there may no longer be any financial compensation for the recycling fees for old vehicles paid upon the sale of new vehicles, depending amongst other things on local employment and production volumes. In South Africa, financial support is available depending on levels of investment and production volumes. And in India, a second, higher rate of import duty has been introduced for the local assembly of vehicles if their engines, transmissions and axles are imported as complete units. These are just a few examples. Daimler has already increased the local value added in order to adapt to the requirements of industrial policy and has thus taken appropriate action in good time. The increasing proximity of our production sites to local markets and consideration of logistical and other advantages result in opportunities in terms of utilizing those markets' potential.

Company-specific risks and opportunities

The following section deals with the company-specific risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table ↗ C.52.

Production and technology risks and opportunities. Key success factors for achieving the desired level of prices for the products of the Daimler Group and hence for the achievement of our corporate goals are the brand image, design and quality of our product – and thus their acceptance by customers – as well as technical features based on innovative research and development. Convincing solutions, which for example promote accident-free driving or further improve our vehicles' fuel consumption and emissions such as with diesel-hybrid or electric vehicles, are of key importance for safe and sustainable mobility. Due to growing technical complexity, continually rising requirements in terms of emissions, fuel consumption and safety, and the Daimler Group's goal of meeting and steadily raising its quality standards, product manufacturing in the various divisions is subject to production and technology risks.

The demanding combination of requirements, complexity and quality can lead to higher advance expenditure and thus also to an adverse impact on the Group's profitability, as those three factors have the highest priority for the Daimler Group. One of the associated risks is that **development expenditure** cannot later flow directly into the end product if the solution is not ideally usable for the customer or proves not to be marketable. In addition, the **launch of new products** is generally connected with high investment. In order to achieve a very high level of quality, one of the key factors for a customer's decision to buy a product of the Daimler Group, it is necessary to make investments in new products and technologies that sometimes exceed the originally planned volume. This cost overrun would then reduce the anticipated earnings from the launch of a new model series or product generation. This affects the segments that are currently launching new products or that are planning to do so. Due to the currently high number of product launches, production and technology risks are generally higher than in the previous year.

Furthermore, in the Mercedes-Benz Cars segment, there is a risk with a very low probability of occurrence that the operation of production plants could be interrupted. Spare parts are held available for those production plants as a precaution.

The Mercedes-Benz Cars division may be able to utilize additional production opportunities by increasing its production capacities. For this purpose, shift models and the worldwide production networks would be used, investment plans implemented and analyses conducted, for example with regard to enhancing the flexibility of production equipment.

Guarantee and goodwill claims are another issue affecting the automotive segments. These claims can arise when the quality of the manufactured products does not meet customers' expectations, when a regulation is not fully complied with or when support is not provided in the required form in connection with problems and care of the products. The Daimler Group works continually and intensively to maintain product quality at a very high level along with growing product complexity, in order to avoid the danger of making corrections on end-products and to supply customers with the best possible products. Furthermore, processes are implemented at the Daimler Group to regularly obtain customers' opinions on the support provided so that our service and customer satisfaction can be continuously improved.

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Company-specific risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
Production and technology risks	Low	High	Production and technology opportunities	Low
Information technology risks	Low	Medium	Information technology opportunities	–
Personnel risks	Low	Medium	Personnel opportunities	–
Risks related to equity interests and joint ventures	Low	Medium	Opportunities related to equity interests and joint ventures	Low