Liquidity and Capital Resources.

Principles and objectives of financial management

Financial management at Daimler consists of capital structure management, cash and liquidity management, pension asset management, market-price risk management (foreign exchange rates, interest rates, commodity prices) and credit and financial country risk management. Worldwide financial management is performed within the framework of legal requirements consistently for all Group entities by Treasury. Financial management operates within a framework of guidelines, limits and benchmarks, and on the operational level is organizationally separate from other financial functions such as settlement, financial controlling, reporting and accounting.

Capital structure management designs the capital structure for the Group and its subsidiaries. Decisions regarding the capitalization of financial services companies, as well as production, sales and financing companies, are based on the principles of cost-optimized and risk-optimized liquidity and capital resources. In addition, it is necessary to adhere to various restrictions on capital transactions and on the transfer of capital and currencies.

Liquidity management ensures the Group's ability to meet its payment obligations at any time. For this purpose, liquidity planning provides information about all cash flows from operating and financial activities in a rolling plan. The resulting financial requirements are covered by the use of appropriate instruments for liquidity management (e.g. bank credit, commercial paper, notes); liquidity surpluses are invested in the money market or the capital market to optimize risk and return. Our goal is to ensure the level of liquidity regarded as necessary at optimal costs. Besides operational liquidity, Daimler keeps additional liquidity reserves which are available in the short term. Those additional financial resources include a pool of receivables from the financial services business which are available for securitization in the credit market, as well as a contractually confirmed syndicated credit line with a volume of €9 billion.

Cash management determines the Group's cash requirements and surpluses. The number of external bank transactions is minimized by the Group's internal netting of cash requirements and surpluses. Netting is done by means of cash-concentration or cash-pooling procedures. Daimler has established standardized processes and systems to manage its bank accounts, internal cash-clearing accounts and the execution of automated payment transactions.

Management of market-price risks aims to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the divisions and the Group. The Group's overall exposure to these market-price risks is determined to provide a basis for hedging decisions, which include the definition of hedging volumes and corresponding periods, as well as the selection of hedging instruments. Decisions regarding the management of risks resulting from fluctuations in foreign exchange rates and commodity prices, as well as decisions on asset/liability management (liquidity and interest rates), are regularly made by the relevant committees.

Management of pension assets includes the investment of pension assets to cover the corresponding pension obligations. Pension assets are held in separate pension funds and are thus not available for general business purposes. The funds are allocated to different asset classes such as equities, fixed-interest securities, alternative investments and real estate, depending on the expected development of pension obligations and with the help of a process for risk-return optimization. The performance of asset management is measured by comparing with defined reference indices. Local custodians of the pension funds are responsible for the risk management of the individual pension funds. The Global Pension Committee limits these risks by means of Group-wide binding guidelines whereby applicable laws are given due consideration. Additional information on pension plans and similar obligations is provided in Note 22 of the Notes to the Consolidated Financial Statements.

The risk volume that is subject to **credit risk management** includes all of Daimler's worldwide creditor positions with financial institutions, issuers of securities and customers in the financial services business and the automotive business. Credit risks with financial institutions and issuers of securities arise primarily from investments executed as part of our liquidity management and from trading in derivative financial instruments. The management of these credit risks is mainly based on an internal limit system that reflects the creditworthiness of the respective financial institution or issuer. The credit risk with customers of our automotive business relates to contracted dealerships and general agencies, other corporate customers and retail customers. In connection with the export business, general agencies that according to our creditworthiness analysis are not sufficiently creditworthy are generally required to provide collateral such as first-class bank guarantees. The credit risk with end customers in the financial services business is managed by Daimler Financial

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

Other financial obligations, financial guarantees and contingent liabilities

In the context of its normal business operations, the Group has entered into **other financial obligations** in addition to the liabilities shown in the consolidated balance sheet at December 31, 2013. Table ↗ C.28 provides an overview of the nominal amounts of other financial obligations. With regard to their maturities, we refer to Note 30 (Financial guarantees, contingent liabilities and other financial commitments) and Note 32 (Management of financial risks) of the Notes to the Consolidated Financial Statements.

Within the context of **financial guarantees**, Daimler generally guarantees the settlement of the payment obligations of the main debtor vis-à-vis the holder of the guarantee. The maximum potential obligation resulting from these guarantees amounts to €0.8 billion at December 31, 2013 (end of 2012: €1.0 billion); liabilities recognized in this context amount to €0.1 billion at the end of the year (end of 2012: €0.1 billion). Most of the financial guarantees relate to the situations described as follows: In connection with the transfer of a majority interest in Chrysler, Daimler provides guarantees for Chrysler obligations; at December 31, 2013, those guarantees amounted to €0.3 billion, whereby Chrysler provided €0.2 billion on an escrow account as collateral for the guaranteed obligations. Another financial guarantee of €0.1 billion relates to bank loans of Toll Collect GmbH, the operator company of the toll-collection system for trucks in Germany. Other risks arise from an additional guarantee that the Group provided for obligations of Toll Collect GmbH to the Federal Republic of Germany. This guarantee is related to the completion and operation of the toll-collection system. A claim on this guarantee could primarily arise if for technical reasons toll revenue is lost or if certain contractually defined parameters are not fulfilled, if the Federal Republic of Germany makes additional claims or if the final operating permit is not granted. Furthermore, arbitration proceedings have been initiated against the Group. The maximum obligation that could result from this guarantee is substantial, but cannot be reliably estimated.

The **contingent liabilities** principally constitute buyback obligations. At December 31, 2013, the best possible estimate for the loss risk from these guarantees amounted to €1.0 billion (December 31, 2012: €0.8 billion). Warranty and goodwill commitments (product guarantees) provided by the Group in connection with its vehicle sales are not included in the contingent liabilities. Contingent liabilities also include other contingent liabilities. They mainly comprise possible expenses from liability and litigation risks as well as from tax risks and import-duty risks. The best possible estimate for a possible expense from the other contingent liabilities is €0.4 billion (2012: €0.1 billion).

Further information on other financial obligations and contingent liabilities from guarantees granted as well as on the electronic toll-collection system and related risks is provided in Note 30 (Financial guarantees, contingent liabilities and other financial commitments) and Note 29 (Legal proceedings) of the Notes to the Consolidated Financial Statements.

C.27
Net debt of the Daimler Group

In millions of euros	Dec. 31, 2013	Dec. 31, 2012	13/12 Change
Cash and cash equivalents	11,053	10,996	+57
Marketable debt securities	7,066	5,598	+1,468
Liquidity	18,119	16,594	+1,525
Financing liabilities	-77,738	-76,251	-1,487
Market valuation and currency hedges for financing liabilities	-3	665	-668
Financing liabilities (nominal)	-77,741	-75,586	-2,155
Net debt	-59,622	-58,992	-630

C.28
Other financial obligations (nominal amounts)

In millions of euros	Dec. 31, 2013	Dec. 31, 2012
Obligations from purchasing agreements	9,771	8,763
Non-terminable rental and leasing agreements	1,980	2,139
Irrevocable loan obligations	1,508	1,022
Other miscellaneous financial obligations	1,356	1,396
Other financial obligations	14,615	13,320

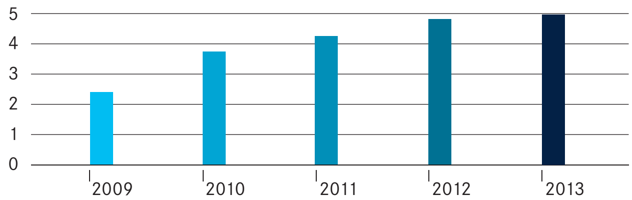
Investment in property, plant and equipment

Renewed increase in investment. In the context of our global growth strategy, we want to make good use of the opportunities presented by international automotive markets. This requires substantial investment in new products and new technologies as well as in the expansion of our worldwide production network. In 2013, we therefore once again increased our investment in property, plant and equipment to €5.0 billion (2012: €4.8 billion) and thus reached the magnitude announced in Annual Report 2012. Of that capital expenditure, €3.2 billion was invested in Germany (2012: €3.3 billion). As of December 31, 2013, no material financial obligations exist in connection with future investment in property, plant and equipment.

C.29

Investment in property, plant and equipment

In billions of euros



C.30

Investment in property, plant and equipment by division

In millions of euros	2013	2012	13/12 % change
Daimler Group	4,975	4,827	+3
in % of revenue	4.2	4.2	
Mercedes-Benz Cars	3,710	3,495	+6
in % of revenue	5.8	5.7	
Daimler Trucks	839	989	-15
in % of revenue	2.7	3.2	
Mercedes-Benz Vans	288	223	+29
in % of revenue	3.1	2.5	
Daimler Buses	76	82	-7
in % of revenue	1.9	2.1	
Daimler Financial Services	19	23	-17
in % of revenue	0.1	0.2	

At Mercedes-Benz Cars, investment in property, plant and equipment increased by 6% to €3.7 billion in 2013. The most important projects included the production of the new S-Class and preparations for the new C-Class, which will be produced in Bremen as well as Tuscaloosa (United States), Beijing (China) and East London (South Africa) as of 2014. We also made substantial investments in the modernization and expansion of transmission production in Untertürkheim and in the expansion of our production capacities in the United States. The main areas of investment at Daimler Trucks were for the Arocs (the new heavy-duty construction-site truck) as well as various projects for the global standardization of engines and other main components. We also invested in the expansion of our production capacities in Brazil and in the new Bharat-Benz plant in India. Total investment in property, plant and equipment at Daimler Trucks amounted to €0.8 billion (2012: €1.0 billion). At the Mercedes-Benz Vans division, the focus of investment was on the successor generation of the Vito goods van and the Viano passenger van. We also invested in the new generation of the Sprinter and the production of the Sprinter Classic by our partner GAZ in Russia. The main investments at Daimler Buses in 2013 were in new products and the modernization of production facilities.

In addition to capital expenditure on property, plant and equipment, we also invested substantial amounts in associates and joint ventures in 2013. Those investments include the acquisition of a 12% equity interest in our Chinese partner BAIC Motor and the investments in our Chinese joint ventures.

We also capitalized development costs of €1.3 billion in 2013 (2012: €1.5 billion); this is presented under intangible assets.
see page 106

Refinancing

The funds raised by Daimler in the year 2013 primarily served to refinance the leasing and sales-financing business. For that purpose, Daimler made use of a broad spectrum of various financing instruments in various currencies and markets. They include bank credit, commercial paper in the money market, bonds with medium and long maturities, customer deposits at Mercedes-Benz Bank and the securitization of receivables from customers in the financial services business (asset backed securities, ABS).

Various issue programs are available for raising longer-term funds in the capital market. They include the Euro Medium Term Note program (EMTN) with a total volume of €35 billion, under which Daimler AG and several subsidiaries can issue bonds in various currencies. Other local capital-market programs exist, significantly smaller than the EMTN program however, in markets such as South Africa, Mexico, Thailand and Argentina. Capital-market programs allow flexible, repeated access to the capital markets.

In 2013, the Group covered its liquidity requirements mainly through the issuance of bonds. A large proportion of those bonds were placed in the form of so-called benchmark emissions (bonds with high nominal volumes) in the US dollar and euro markets. ↗ C.32

In addition, a large number of smaller bonds were issued in various currencies in the euro market as well as in Canada, South Africa, Thailand, Brazil, Argentina, South Korea and Turkey. More than one third of the bond volume was issued in euros and more than one third was issued in US dollars.

The ongoing high degree of uncertainty in global financial markets in 2012, due in particular to the European sovereign-debt crisis, meant that issuers with good ratings were already able to place corporate bonds at attractive conditions, and conditions for Daimler continued to improve in 2013. Within the framework of our liquidity management, we therefore tended to raise more funds with longer maturities.

Daimler also issued commercial paper in small volumes in 2013.

In 2013, several asset-backed securities (ABS) transactions were carried out in the United States and Germany due to the favorable market environment. For example, in April and November 2013, a refinancing volume of $3.3 billion was generated in the United States through the issuance of ABS paper backed by leasing receivables. In addition, in July 2013, an ABS transaction with a volume of nearly $1 billion was placed in the United States based on credit receivables. In November, Mercedes-Benz Bank placed ABS bonds in a volume of €925 million, also backed by credit receivables, with European investors.

Bank credit was another important source of refinancing in 2013. Funds were provided not only by large, globally active banks, but increasingly also by a number of local banks. The lenders included supranational banks such as Kreditanstalt für Wiederaufbau (KfW), the European Investment Bank and the Brazilian Development Bank (BNDES). In this way, we continued our diversification in the field of refinancing through banks.

In order to secure sufficient financial flexibility, in September 2013, Daimler concluded a €9 billion syndicated credit facility with a consortium of international banks with a maturity of five years and two extension options of two years in total. This provides the Group with financial flexibility until the year 2020. More than 40 European, American and Asian banks participated in the consortium. The credit line was oversubscribed and has more favorable conditions than the previous €7 billion facility. Daimler does not intend to utilize the credit line.

At the end of 2013, Daimler had short- and long-term credit lines totaling €35.4 billion (2012: €33.7 billion), of which €15.0 billion was not utilized (2012: €12.2 billion). They include a syndicated credit line arranged in September 2013 with a consortium of international banks with a volume of €9 billion, which has not been utilized.

The carrying values of the main refinancing instruments and the weighted average interest rates are shown in table ↗ C.31. At December 31, 2013, they are mainly denominated in the following currencies: 48% in euros, 25% in US dollars, 4% in Brazilian real, 3% in Japanese yen and 4% in Canadian dollars.

At December 31, 2013, the total of financial liabilities shown in the consolidated statement of financial position amounted to €77,738 million (2012: €76,251 million).

Detailed information on the amounts and terms of financing liabilities is provided in Note 24 and Note 32 of the Notes to the Consolidated Financial Statements. Note 32 also provides information on the maturities of the other financial liabilities.

C.31

Refinancing instruments

	Average interest rates		Carrying values	
	Dec. 31, 2013	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012
	in %		in millions of euros	
Notes/bonds and liabilities from ABS transactions	**2.14**	1.86	**44,875**	40,845
Commercial paper	**2.02**	1.52	**1,086**	1,768
Liabilities to financial institutions	**3.32**	3.80	**19,089**	20,210
Deposits in the direct banking business	**1.54**	2.13	**11,257**	12,121

C.32

Benchmark emissions

Issuer	Volume	Month of emission	Maturity
Daimler Finance North America	750 million USD	Jan. 2013	Jan. 2015
Daimler Finance North America	1,250 million USD	Jan. 2013	Jan. 2016
Daimler Finance North America	1,000 million USD	Jan. 2013	Jan. 2018
Daimler AG	1,000 million EUR	Mar. 2013	July 2016
Daimler AG	500 million EUR	Mar. 2013	Mar. 2023
Daimler AG	750 million EUR	June 2013	June 2021
Daimler Finance North America	1,500 million USD	Aug. 2013	Aug. 2016
Daimler Finance North America	1,500 million USD	Aug. 2013	Aug. 2018
Daimler AG	500 million EUR	Oct. 2013	Oct. 2016
Daimler AG	750 million EUR	Oct. 2013	Apr. 2020
Daimler AG	1,000 million EUR	Nov. 2013	Nov. 2018

C.33

Credit ratings

	End of 2013	End of 2012
Long-term credit ratings		
Standard & Poor's	A-	A-
Moody's	A3	A3
Fitch	A-	A-
DBRS	A (low)	A (low)
Short-term credit ratings		
Standard & Poor's	A-2	A-2
Moody's	P-2	P-2
Fitch	F2	F2
DBRS	R-1 (low)	R-1 (low)

Credit ratings

In 2013, the outlook for the long-term credit rating of Daimler AG was changed from positive to stable by the rating agency Moody's Investors Service. The other rating agencies confirmed their credit ratings for Daimler during the course of the year. Daimler AG therefore has comparable credit ratings at the level of A- with all four of the agencies it has engaged. ↗ C.33

In a publication of February 12, 2013, **Standard & Poor's Ratings Services** (S&P) explained its credit rating for Daimler AG and thus affirmed our existing long-term corporate rating of A- and the stable outlook. On November 21, 2013, S&P once again confirmed its rating for Daimler AG following the application of revised corporate criteria, which S&P had published on November 19, 2013.

Fitch Ratings (Fitch) affirmed the existing long-term issuer risk of Daimler AG of A- with a stable outlook on May 24, 2013. This assessment was justified by Fitch with the Group's robust financial structure and its significant net cash position. With regard to its financial metrics, Fitch stated that Daimler enjoys adequate headroom in its current ratings.

On July 11, 2013, **Moody's Investors Service** (Moody's) also affirmed the existing long-term issuer default rating of A3 for Daimler AG and the subsidiaries rated by Moody's. At the same time, the outlook was changed from positive to stable. Moody's explained the revised outlook by the fact that Daimler's credit metrics had eroded since the previous assessment of the outlook in August 2011 to a level below what would be needed to qualify for an upgrade and that a return to a level that would support a higher rating was not expected within the next 12 to 18 months. Moody's stated, however, that Daimler's performance had recently been relatively resilient.

The Canadian agency **DBRS** confirmed its long-term credit rating for Daimler AG and its related companies at A (low) with a stable outlook on October 21, 2013. The confirmation of the ratings is based on the Group's strong business profile as a highly established premium automotive manufacturer as well as the world's leading truck producer. DBRS stated that Daimler's current financial profile is wholly commensurate with the assigned ratings.

All of the rating agencies assume that the Group's profitability will improve in the year 2014 due to the launch of new vehicle models.

The short-term ratings of all four rating agencies remained unchanged in 2013.