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