Risk and Opportunity Report.

The Daimler Group's divisions are exposed to a large number of risks which are inextricably linked with our entrepreneurial activities. A risk is understood as the danger that events or actions by the Group or one of its divisions prevent the Group from achieving its targets. It is also important for the Daimler Group to identify possible opportunities so that they can be utilized in the context of entrepreneurial activity, thus securing and enhancing the Daimler Group's competitiveness. An opportunity is understood as the possibility to meet or surpass the planned targets as a result of events, developments or actions.

The divisions have direct responsibility for recognizing and managing entrepreneurial risks and opportunities at an early stage. As part of the strategy process, risks related to the planned long-term development and opportunities for further profitable growth are identified and integrated into the decision process. In order to identify risks and opportunities at an early stage and to assess and deal with them consistently, effective management and control systems are applied, which are integrated into a risk management system and an opportunity management system. Opportunities and risks are not offset. The two systems are described below.

Risk management system

The **risk management system with regard to material risks and existence-threatening risks** is integrated into the value-based management and planning system of the Daimler Group. It is an integral part of the overall planning, management and reporting process in the relevant legal entities, divisions and corporate functions. The risk management system is intended to systematically identify, assess, control, monitor and document material risks and risks threatening Daimler's existence, in order to secure the achievement of corporate goals and to enhance risk awareness at the Group. Risk assessment principally takes place for a two-year planning period, although Daimler also identifies and monitors risks related to a longer period in the discussions for the derivation of medium-term and strategic goals. Reporting in the Management Report is with reference to one year.

In the context of the two-year operational planning – with the use of defined risk categories – risks are identified and assessed for the divisions and operating units, the major joint ventures and associated companies and the corporate departments. The risk consolidated group mirrors the consolidated group of the consolidated financial statements and goes even further if necessary.

Risk assessment takes place on the basis of the probability of occurrence and possible impact of the risk according to the categories low, medium and high. When assessing the impact of a risk, the effect before countermeasures in relation to EBIT is considered. At the Daimler Group, risks below €500 million are categorized as low, between €500 million and €1 billion as medium and above €1 billion as high. Assessment of the dimensions of the probability of occurrence and possible impact is based on the categories shown in table ↗ C.50.

C.50

Assessment of probability of occurence and possible impact

Category	Probability of occurrence		
Low	0% ≤	Probability of occurrence	≤ 33%
Medium	34% ≤	Probability of occurrence	≤ 66%
High		Probability of occurrence	≥ 67%

Category	Possible impact		
Low	€0 ≤	Impact	< €500 million
Medium	€500 million ≤	Impact	< €1 billion
High		Impact	≥ €1 billion

Quantification of each aggregated risk category in the Management Report summarizes the individual risks reported for each category. To the extent not otherwise presented, even in the case of simultaneous occurrence of all individual risks in a risk category, the Group does not expect any effect in this category of more than €3 billion.

Risk controlling at the Daimler Group takes place at the level of the divisions based on individual risks. If the impact of an individual risk exceeds the amount of €2 billion, this risk is described separately.

The tasks of a person responsible for a risk include, in addition to identifying and assessing the risks, developing measures and initiating them if appropriate so that risks are avoided, reduced or counteracted. All reported risks of the individual entities and of the related countermeasures that have been initiated are monitored locally. Corporate risk management at headquarters regularly reports on the identified risks to the Board of Management and the Supervisory Board. As well as the regular reporting, there is also an internal reporting obligation within the Group for risks arising unexpectedly.

The principle of completeness also applies to risk management. This means that at the level of the individual entities, all specific risks must flow into the risk management process. Such a risk exists if the probability of occurrence of the risk exceeds a uniform threshold defined for the whole Group. Latent risks that are below this threshold are monitored in the internal control system (ICS). Compliance risks are thoroughly identified by the Group. Regular courses of training aim to reduce the number of compliance risks.

The **internal control and risk management system with regard to the accounting process** has the goal of ensuring the correctness and effectiveness of accounting and financial reporting. It is designed in line with the internationally recognized framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Internal Control – Integrated Framework), is continually further developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and corporate functions. The system includes principles and procedures as well as preventive and detective controls. Among other things, we regularly check that

- the Group's uniform financial reporting, valuation and accounting guidelines are continually updated and regularly trained and adhered to;
- transactions within the Group are fully accounted for and properly eliminated;
- issues relevant for financial reporting and disclosure from agreements entered into are recognized and appropriately presented;
- processes exist to guarantee the completeness of financial reporting;
- processes exist for the segregation of duties and for the "four-eyes principle" in the context of preparing financial statements, and authorization and access rules exist for relevant IT accounting systems.

We systematically assess the effectiveness of the internal control system with regard to the corporate accounting process. The first step consists of risk analysis and definition of control. Significant risks are identified relating to the process of corporate accounting and financial reporting in the main legal entities and corporate functions. The controls required are then defined and documented in accordance with Group-wide guidelines. Regular random tests are carried out to assess the effectiveness of the controls. Those tests constitute the basis for self-assessment of the appropriate magnitude and effectiveness of the controls. The results of this self-assessment are documented and reported in a global IT system. Any weaknesses recognized are eliminated with consideration of their potential effects. At the end of the annual cycle, the selected legal entities and corporate functions confirm the effectiveness of the internal control and risk management system with regard to the corporate accounting process. The Board of Management and the Audit Committee of the Supervisory Board are regularly informed about the main control weaknesses and about the effectiveness of the control mechanisms installed. However, the internal control and risk management system for the accounting process cannot ensure with absolute certainty that material false statements are avoided in accounting.

The **organizational embedding and monitoring of risk management** takes place through the risk management organization established at the Group. As previously described in the "Risk management system" section with regard to material risks and risks threatening Daimler's existence, the divisions, corporate functions and legal entities inquire about the specific risks at regular intervals. This information is passed on to Corporate Risk Management, which processes the information and provides it to the Board of Management and Supervisory Board as well as to the Group Risk Management Committee (GRMC). In order to ensure the complete presentation and assessment not only of material risks and risks threatening the existence of the Group, but also of the control and risk process with regard to the corporate accounting process, Daimler has established the Group Risk Management Committee. It is composed of representatives of the areas of Finance & Controlling, Accounting, Legal Affairs and Group Compliance, and is chaired by the Board of Management Member for Finance (CFO). The Internal Auditing department contributes material statements on the internal control and risk management system. In addition to fundamental issues, the committee has the following tasks:

- The GRMC defines and shapes the framework conditions with regard to the organization, methods, processes and systems that are needed to ensure a functioning, Group-wide and thorough control and risk management system.
- The GRMC regularly reviews the effectiveness and functionality of the installed control and risk management processes. Minimum requirements can be laid down in terms of the design of the control processes and of risk management and corrective measures can be commissioned as necessary or appropriate to eliminate any system failings or weaknesses exposed.

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.

C.51

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.

C.52

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

In principle, there is also a danger that due to a failure of production equipment or a problem with a production plant, the level of production cannot be maintained as planned. In order to avoid bottleneck situations, priority is placed on the regular maintenance of production equipment and on avoiding capacity bottlenecks by means of foresighted planning. The possibility of a risk occurring in this context is low. Another factor is that the availability and quality of products is continuously monitored within the context of managing the entire value chain.

Information technology risks. Information technology plays a crucial role for the Daimler Group's business processes. Storing and exchanging data in a timely, complete and correct manner and being able to utilize fully functioning IT applications are of key importance for a global group such as Daimler. Risks of occurrences which could result in the interruption of our business processes due to the failure of IT systems or which could cause the loss or corruption of data are therefore identified and evaluated over the entire lifecycles of applications and IT systems. Daimler has defined suitable actions for risk avoidance and limitation of damage, which are continually adapted to changing circumstances. These activities are embedded in a multi-stage IT risk management process. For example, the Group minimizes potential interruptions of operating routines in the data centers by means of mirrored data sets, decentralized data storage, outsourced archiving, high-availability computers and appropriate emergency plans. In order to meet the growing demands placed on the confidentiality, integrity and availability of data, Daimler operates its own risk management system for information security. Despite all the precautionary measures taken, Daimler cannot completely rule out the possibility that IT disturbances will arise and have a negative impact on the Group's business processes. IT risks are not allocated to the segments of the Daimler Group because there are no segment-specific differences with regard to the types of risk in the IT risk portfolio.

Personnel risks. Daimler's success is highly dependent on our employees and their expertise. Competition for highly qualified staff and management is still very intense in the industry and the regions in which we operate. Our future success also depends on the magnitude to which we succeed over the long term in recruiting, integrating and retaining executives, engineers and other specialists. Our human resources instruments take such personnel risks into consideration, while contributing towards the recruitment and retention of staff with high potential and expertise and ensuring transparency with regard to our resources. One focus of our human resources management is on the targeted personnel development and further training of our workforce. Our employees benefit for example from the range of courses offered by the Daimler Corporate Academy and from the transparency created by LEAD, our uniform worldwide performance and potential management system. Because of demographic developments, the Group has to cope with changes relating to an aging workforce and has to secure a sufficient number of qualified young persons with the potential to become the next generation of highly skilled specialists and executives. We address this issue by taking appropriate measures in the area of generation management. There is no segment-specific assessment of the human resources risk because the described risks are not related to any specific business segment but are valid for all segments. If this risk materializes, depending on the size of the personnel shortage, an impact on the Group's activities and thus also on the earnings of the Daimler Group is to be expected.

As described above, our employees constitute great potential for the Daimler Group. With their ideas and suggestions, they are involved in the respective activities and working processes and thus contribute considerably to our improvements and innovations.

To support this process, the Daimler Group has established an **ideas management** system through which employees can submit ideas and suggestions for improvements. The processing of the information received by this system and the integration of ideas in an assessment process carried out by experts and persons in charge of the respective processes is supported by the established IT system “idee.com.” This is intended to ensure the systematic and sustained promotion of our employees' ideas and suggestions for improvement.

Furthermore, workgroups create processes and instruments to produce new business ideas and to establish cross-departmental cooperation. In this context, an online community exists in the area of **business innovation** to which suggestions for discussions can be submitted, which all employees can assess and develop further.

Risks and opportunities related to equity interests and joint ventures. Cooperation with partners in joint ventures and associated companies is of increasing importance for Daimler to utilize additional growth opportunities, and also against the background of increasing national regulations, particularly in the emerging markets. The successful implementation of cooperation with other companies is also of key importance to realize cost advantages and to combat the competitive pressure in the automotive industry.

Daimler generally bears a proportionate share of the risks and opportunities of its joint ventures and associated companies in growth markets. In the relevant regions, the increasing relevance of cooperation with partners in joint ventures, associated companies and cooperations therefore increases the potential risks and opportunities, because the factors that have a negative impact on those companies' profitability also reduce the Group's earnings in proportion to the ownership interest.

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.

Risks from guarantees and legal risks

Furthermore, the Group is exposed to legal risks and risks from guarantees. Provisions are recognized for those risks if and to the extent that they are likely to be utilized and the amounts of the obligations can be reasonably estimated.

Risks from guarantees. The issue of guarantees results in liability risks for the Group. For example, Daimler holds an equity interest in the system for recording and charging tolls for the use of highways in Germany by commercial vehicles of more than 12 metric tons gross vehicle weight. The operation of the electronic toll-collection system is the responsibility of the operator company, Toll Collect GmbH, in which Daimler holds a 45% stake and which is included in the consolidated financial statements using the equity method of accounting. In addition to Daimler's membership of the Toll Collect consortium and its equity interest in Toll Collect GmbH, risks also arise from guarantees that Daimler has assumed with the other partners in the Toll Collect consortium (Deutsche Telekom AG and Cofiroute SA) supporting obligations of Toll Collect GmbH towards the Federal Republic of Germany in connection with the toll system and a call option of the Federal Republic of Germany. Claims could be made under those guarantees if toll revenue is lost for technical reasons, if certain contractually defined performance parameters are not fulfilled, if additional claims are made by the Federal Republic of Germany, if the final operating permit is not granted, if Toll Collect GmbH fails to meet contractual obligations, if it fails to have the required equipment available or if the Federal Republic of Germany takes over Toll Collect GmbH. The maximum loss risk for the Group from these risks can be substantial. Additional information is provided in Note 29 (Legal proceedings) and Note 30 (Financial guarantees, contingent liabilities and other financial commitments) of the Notes to the Consolidated Financial Statements.

Legal risks. Various legal proceedings, claims and governmental investigations (legal proceedings) are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights, warranty claims, environmental matters, legal proceedings relating to competition law, and shareholder litigation. Some of these proceedings allege defects in various components in several different vehicle models or allege design defects relating to vehicle stability, pedal misapplication, brakes or crashworthiness. Some of the claims asserted by way of class action suits seek repair or replacement of the vehicles or compensation for their alleged reduction in value, while others seek recovery for damage to property, personal injuries or wrongful death. Adverse decisions in one or more of these proceedings could require us to pay substantial compensatory and punitive damages or undertake service actions, recall campaigns or other costly actions. Some of these proceedings may have an impact on the Group's reputation. It is possible, as these proceedings are connected with a large degree of uncertainty, that after the final resolution of litigation, some of the provisions we have recognized for legal proceedings could prove to be insufficient. As a result, substantial additional expenditures may arise. This also applies to legal proceedings for which the Group has seen no requirement to recognize a provision.

Although the final result of any such litigation may influence the Group's earnings and cash flows in any particular period, Daimler believes that any resulting obligations are unlikely to have a sustained effect on the Group's cash flows, financial position or profitability. Further information on legal proceedings is provided in Note 29 of the Notes to the Consolidated Financial Statements.

Overall assessment of the risk and opportunity situation

The Group's overall risk situation is the sum of the individual risks of all risk categories for the divisions and the corporate functions and legal entities. In addition to the risk categories described above, unpredictable events are possible that can disturb production and business processes such as natural disasters or terrorist attacks. This could adversely affect consumer confidence and could cause production interruptions due to supplier problems and intensified safety measures at national borders. In this context, Daimler also considers the risks of additional earthquakes in Asia, the danger of weather damage and political instability in sales regions. In the case of natural disasters, emergency plans are developed to allow the resumption of business activities. In addition, further protective measures are taken and, if possible, insurance cover is obtained. Other smaller risks relate to project and process risks as well as the shortage or lack of resources. In order to avoid or minimize these risks, measures are defined for each individual case and must be implemented accordingly.

In addition to the risks described above, there are risks that affect the reputation of the Daimler Group as a whole. Public interest is focused on Daimler's position with regard to issues such as ethics and sustainability. Furthermore, customers and capital markets are interested in how the Group reacts to the technological challenges of the future and how we succeed in offering up-to-date and technologically leading products in the markets. As one of the fundamental principles of entrepreneurial activity, Daimler places particular priority on adherence to applicable law and ethical standards. In addition, a secure approach to sensitive data is a precondition for doing business with customers and suppliers in a trusting and cooperative environment. The Group takes extensive measures so that risks that may arise in this context with an impact on our reputation are subject to well-regulated internal controls.

In order to obtain an overall picture, Corporate Risk Management collates the information described on risks from the individual organizational units. There are no discernible risks that either alone or in combination with other risks could jeopardize the continued existence of the Group. But since considerable economic and industry risks still exist, setbacks on the way to regularly achieving our growth and profitability targets cannot be completely ruled out. However, the business environment of the Daimler Group has tended to improve slightly compared with the previous year. Daimler is confident that due to the established risk management system at the Group, risks are recognized at an early stage and the current risk situation can be successfully managed as a result.

For a holistic picture of the entrepreneurial activity of the Daimler Group, it is necessary to consider not only the risk side but also the opportunity side. The aforementioned opportunities represent potential and also challenges for the Daimler Group. By effectively and flexibly focusing the production program on changing conditions, the divisions of the Daimler Group strive to secure or surpass their respective targets and plans. As far as can be influenced by the Daimler Group and if measures prove to be economical, the Group takes appropriate action to realize the potential of its opportunities.