

# 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 occurrence 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.