

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 mea-

asures 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