

Risk and Opportunity Report

The Daimler Group is exposed to a large number of risks that are directly linked with the business activities of Daimler AG and its subsidiaries or which result from external influences. A risk is understood as the danger that events, developments or actions will prevent the Group or one of its segments from achieving its targets. This includes financial and non-financial risks. At the same time, it is important to identify opportunities in order to safeguard and enhance the competitiveness of the Daimler Group. An opportunity is understood as the possibility due to events, developments or actions to safeguard or to surpass the planned targets of the Group or of a segment.

In order to identify business risks and opportunities at an early stage and to assess and manage them actively, effective management and control systems, which have been brought together in an overall risk and opportunity management system, are applied. Risks and opportunities are not offset.

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Assessment of probability of occurrence / possible impact

Level	Probability of occurrence		
Low	0% <	Probability of occurrence	≤ 33%
Medium	33% <	Probability of occurrence	≤ 66%
High	66% <	Probability of occurrence	< 100%

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

Risk and opportunity management system

The **risk management system** is intended to systematically and continually identify, assess, control, monitor and report on risks threatening the Daimler Group's existence and other material risks jeopardizing the Group's success, in order to support the achievement of corporate targets and to enhance risk awareness at the Group. The risk management system is integrated into the value-based management and planning system of the Daimler Group and is a fixed component of the overall planning, management and reporting process in the companies, segments and corporate functions.

The **opportunity management system** at the Daimler Group is based on the risk management system. The objective of opportunity management is to recognize the possible opportunities arising in business activities as a result of positive developments at an early stage, and to use them in the best possible way for the Group by taking appropriate measures. By taking advantage of opportunities, planned targets should be met or exceeded. Opportunity management considers relevant and realizable opportunities that have not yet been included in any planning.

In the context of the planning, risks and opportunities are considered with an observation period of up to five years. The reporting of risks and opportunities in the Management Report generally relates to a period of one year.

Risk assessment takes place on the basis of probability of occurrence and possible impact according to the levels "Low," "Medium" and "High." These levels also apply to the possible impact of opportunities. An analysis of the probability of occurrence is not considered here. When assessing the impact of a risk or opportunity, unless otherwise reported, its effect in relation to EBIT is considered.

At Group level, risks and opportunities below €500 million are classified as “Low,” between €500 million and €1 billion as “Medium” and above €1 billion as “High.” For the quantification of each risk and opportunity category in the Management Report, the individual risks and opportunities are summarized for each category. The assessment of the dimensions, probability of occurrence and possible impact is based on the levels shown in table 7 B.58 and is conducted before measures are planned. In the context of describing the risk and opportunity categories, significant changes in comparison to the prior year are explained.

Sustainability aspects are integrated into the Group-wide risk management process at Daimler. They are understood to be conditions, events, or developments involving environmental, social or governance factors (ESG), the occurrence of which may have an actual or potential impact on the Daimler Group’s profitability, cash flows and financial position, as well as on its reputation. ESG-related risks and opportunities that are very likely to have a serious negative impact on non-financial aspects in accordance with the CSR Directive Implementation Act (CSR-RUG) can be found in the respective categories of the Risk and Opportunity Report according to their cause. Furthermore, Daimler follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) with regard to climate-related risks and opportunities.

Risk management is based on the principle of completeness. This means that at the level of the individual entities, all identified risks enter the risk management process.

The scope of consolidation for risk and opportunity management corresponds to the scope of the consolidated financial statements and goes beyond that if necessary. The risks and opportunities of the segments and operating units, important associated companies, joint ventures, joint operations and the corporate departments are included.

Furthermore, the employees responsible for risk management have the task of defining measures and, if necessary, initiating such measures to avoid, reduce or protect the Group against risks. Within the context of opportunity management, measures are to be taken with which opportunities can be seized, improved and (fully or partially) realized. The cost-effectiveness of a measure is assessed before its implementation. The possible impact and probability of occurrence of all risks and opportunities of the individual entities and the related measures that have been initiated are continually monitored. The management activities take place at the level of the segments based on individual risks and opportunities. As the parent company of the Daimler Group, Daimler AG monitors implementation by the segments as part of its regulatory, legal, and compliance functions.

The **organizational embedding of risk and opportunity management** takes place through the risk management organization established at the Group. Responsibility for operational risk management and for the risk management processes lies with the segments, corporate functions, organizational entities and companies. They report on the specific risks and opportunities to the next-higher level unit on a regular basis. Significant, unexpected risks must be reported on immediately. Through the segments, this information is passed on to Group Risk Management for reporting to the Board of Management and the Supervisory Board. The Group Risk Management Committee (GRMC) is responsible for the continual improvement of the risk management system and for assessing its efficiency and effectiveness. The GRMC is composed of representatives of Accounting & Financial Reporting, the Legal department, Compliance, Technical Compliance, Corporate & Information Security and the members responsible for finance of the Boards of Management of Mercedes-Benz AG, Daimler Truck AG and Daimler Mobility AG; it is chaired by the Board of Management members of Daimler AG responsible Finance & Controlling / Daimler Mobility and for Integrity and Legal Affairs. The Internal Auditing department contributes material findings on the internal control and risk management system.

The **internal control system with regard to the accounting process** has the objective 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 developed further, and is an integral part of the accounting and financial reporting processes in the relevant companies, organizational units and corporate functions. The system includes principles and procedures as well as preventive and detective controls. Among other things, it is regularly checked as to whether

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

The effectiveness of the internal control system is systematically assessed with regard to the corporate accounting process. The first step consists of risk analysis and a definition of control with the objective of identifying significant risks relating to the processes of corporate accounting and financial reporting in the main companies, organizational entities and corporate functions. The controls required are then defined and documented in accordance with Group-wide guidelines. Random samples are regularly tested 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 docu-

mented and reported in a Group-wide IT system; identified control weaknesses are eliminated. At the end of the annual cycle, the selected companies, organizational entities and corporate functions confirm the effectiveness of the internal control system with regard to the corporate accounting process. The Board of Management and the Audit Committee of the Supervisory Board are regularly informed about potential significant control weaknesses and 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 misstatements in accounting are avoided.

The Audit Committee of the Supervisory Board of Daimler AG and the committees of the Supervisory Boards of Mercedes-Benz AG, Daimler Truck AG and Daimler Mobility AG are 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 concerning the internal control and risk management system of the Group are adhered to. If required, measures are initiated in cooperation with the respective management. External auditors audit the system for the early identification of risks, which is integrated in the risk management system, for its general suitability to identify risks threatening the existence of the Group; in addition, they report to the Audit Committee and the Supervisory Board on any significant weaknesses that have been recognized in the internal control and risk management system.

Risks and opportunities

The following section describes 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 in relation to the individual segments. If no segment is explicitly mentioned, the risks and opportunities described relate to all the segments.

In addition to the risks and opportunities described below, risks and opportunities that are not yet known or classified as not material can also influence profitability, cash flows and financial position in the future.

Industry and business risks and opportunities

The following section describes the industry and business risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table [7 B.59](#).

Economic risks and opportunities

Economic risks and opportunities constitute the framework for the risks and opportunities listed in the following categories and are integrated as premises into the quantification of these risks and opportunities. Overall economic conditions have a significant influence on vehicle sales markets and thus on the Group's success.

Like the majority of economic research institutes, Daimler expects the **world economy** to recover noticeably in 2021 from the recession of the previous year. Economic developments in 2020 are described in detail in the [Economic Conditions and Business Development](#) section of this Management Report; growth assumptions and forecasts for general developments in 2021 are explained in the [Outlook](#).

A significant risk for the development of the global economy is the further course of the **covid-19 pandemic**. If the further course of the infection necessitates even more drastic and comprehensive containment measures than assumed in the Outlook section of this Management Report, this would have a major impact on the economic recovery and international trade relations. The broader and more comprehensive the lockdowns, the greater the impact.

If the restrictions resulting from the pandemic last significantly longer than the first quarter, this could place an excessive burden on households, companies and governments. Among other things, this could lead to a noticeable rise in unemployment, which in turn would have significant adverse effects on private consumption and would also have a lasting negative impact on the recovery. The already strained situation of many companies could worsen as a result. A possible wave of insolvencies resulting from this could jeopardize the stability of the banking sector and lead to distortions in the financial markets. For the Daimler Group, the risks arising from the further course of the pandemic could on the one hand adversely affect both unit sales and sales processes, and on the other hand could lead to significant negative effects on production and supply chains.

If the **service sector**, which has been particularly hit hard by the coronavirus pandemic, fails to recover as expected due to ongoing restrictions or voluntary changes in consumer behavior, this would have a noticeable impact on employment and wages in this sector. This would significantly reduce consumer confidence and consumption, one of the most important pillars of the economic recovery. The resulting lower growth or even decline in overall economic consumption would have a correspondingly negative impact on sales prospects, in particular of Mercedes-Benz Cars & Vans.

In addition, if expectations of a recovery are not fulfilled, there could be a sharp correction on the stock markets, as they have already priced in a noticeable improvement of the real economy. Sharply falling share prices could set off a chain reaction on global stock markets, with sharp market corrections and phases of extraordinary volatility as a consequence. Such developments could lead to major asset losses worldwide and also depress consumer sentiment and the investment climate, and have a negative impact on the global economy. This would have significant adverse effects in particular on the sales prospects of all segments and on the Daimler Group's earnings.

However, the successful containment of the pandemic within the first months of the year, for example, through more rapid and widespread deployment of suitable **vaccines** or the development of effective medication for covid-19, could lead to a significantly more dynamic recovery than assumed in the Outlook section. Reduced uncertainty about the ongoing pandemic and the economic outlook could ensure that household savings, which rose sharply during the shutdown, are released more quickly than assumed. This would noticeably boost consumption and have a positive impact on unit sales by Mercedes-Benz Cars & Vans. In this case, the willingness of companies to invest could also increase, which could be reflected in rising demand for commercial vehicles, with corresponding positive effects for unit sales by Daimler Trucks & Buses.

The increase in public and private **debt** resulting from the pandemic and the countermeasures required to combat it could lead to speculation in the capital market due to some countries' debt situations. This in turn could further increase uncertainty among consumers and investors. In the event of rising interest rates, this development could worsen further. Furthermore, the premature withdrawal of government support measures could slow down the economic recovery. Both developments would result in weaker consumer and investment activity and would be accompanied by a correspondingly weaker business developments for all divisions of the Daimler Group. In addition, the rising burden of interest and principal payments could restrict companies' scope for future investment, thus dampening future economic activity. Lower investment activity would have a particularly negative impact on unit sales by Daimler Trucks & Buses.

At the country level, those **emerging economies** (such as Turkey, South Africa or Brazil) with high foreign debt and high current account deficits could come under pressure, resulting in significant currency devaluations. Financial-market turbulence and even currency crises would be possible consequences and could have a massive negative impact on the economies concerned. Since Daimler is either already very active in these countries or these markets play a strategic role, this would have a significantly negative impact on the Group's sales prospects.

Despite the Phase One partial trade deal, a renewed escalation of the **trade conflict** between the United States and China would continue to be a significant risk for the further development of the world economy. Furthermore, more and more areas are meanwhile affected by the conflict and there is the threat of increasing technological and economic disconnection between the two countries. This could significantly affect the development of unit sales by Mercedes-Benz Cars & Vans. In addition, there is a danger that countries will implement increasingly protectionist measures such as specific market-access barriers or industry requirements for increased local value added. This would lead to higher costs at Mercedes-Benz Cars & Vans and Daimler Trucks & Buses, adversely affecting business developments and sales possibilities. On the other hand, unforeseen trade facilitations could provide positive impulses and lead to more trade and higher growth. In that case, the Daimler Group could also benefit.

The **European market** will continue to be of great importance for all segments of the Daimler Group in the future, so changes in investment and consumer behavior will affect the development of unit sales in all segments. In the European Union (EU), the risk of political conflicts remains high. Phases of political uncertainty could have a negative impact on consumption and investment decisions by households and companies, and consequently have a negative impact on the economic development and sales opportunities of the Daimler Group. If, however, concerted stimulus measures in the European Union, above all the EU reconstruction bonds, or the ECB's expansionary measures have a greater impact than currently assumed, this could lead to a stronger recovery in growth, with positive effects on companies and households. Although the trade and cooperation agreement concluded by the EU and the United Kingdom on December 24, 2020 avoids the feared hard cut and provides for tariff-free trade, a general condition for this is that the respective product-specific value-added rules and rules of origin are complied with. In addition, it will bring about fundamental changes in relations between the EU and the United Kingdom, such as time-consuming customs procedures in the cross-border trade in goods. Long waiting times at the border could lead to delays in deliveries. In addition, possible customs payments if the required rules of origin are not complied with could lead to pressure on vehicle prices or margins.

The fiscal program decided upon in late 2020 and potential further stimulus measures by the new administration in the **United States** could result in opportunities for economic developments. If this leads to significantly more dynamic consumption and investment, demand could benefit in all automotive segments. As Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility generate substantial proportions of their revenues in the United States, these developments would have considerable consequences for the Group's success. Furthermore, stronger economic growth in the United States would also have spillover effects on the rest of the world. However, increasing domestic political tension in the United States could unsettle consumers and investors and thus dampen economic growth.

In **China**, support measures to combat the consequences of the corona pandemic could exacerbate structural imbalances such as overcapacity, indebtedness and low productivity. From an economic perspective, above all the high indebtedness of Chinese companies, especially state-owned enterprises, also represents a considerable risk. If the government's expected efforts to scale back fiscal and monetary support measures lead to a more significant growth slowdown than currently expected, this could result in an excessive increase in credit defaults, which would then lead to turbulences in the banking sector and the financial markets. In particular at the Mercedes-Benz Cars & Vans division, for which China is now one of the biggest sales markets, the aforementioned risks could result in significant negative effects on unit sales. However, growth in 2021 could turn out to be stronger than expected due to ongoing stimulus measures by the Chinese government. The resulting stronger growth in overall economic consumption would offer additional opportunities, especially for Mercedes-Benz Cars & Vans.

B.59**Industry and business risks and opportunities**

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
General market risks	Low	High	General market opportunities	High
Risks relating to the legal and political framework	Low	High	Opportunities relating to the legal and political framework	Low
Procurement market risks	Medium	High	Procurement market opportunities	Medium

General market risks and opportunities

The risks and opportunities for the economic development of automotive markets are strongly affected by the cyclical situation of the global economy as described above. In particular, the potential restrictions mentioned under economic risks and opportunities as a result of the covid-19 pandemic may lead to sales risks worldwide and negatively impact the aftersales business. The assessment of market risks and opportunities is linked to assumptions and forecasts about the overall development of markets in the regions in which the Daimler Group is active. The possibility of markets developing better or worse than assumed in the planning, or of changing market conditions, generally exists for all segments of the Daimler Group.

Potential effects of the **risks of the development of unit sales** are included in risk scenarios. The lack of market acceptance of certain vehicle models in individual regions can have a negative impact earnings. Causes of declining vehicle sales may also result in particular from the partially unstable economic environment and in the context of political or economic uncertainties. A rising oil price and volatile exchange rates can also lead to market uncertainty and thus to falling demand for vehicles. Differences between the segments exist due to the partly varying regional focus of their activities. The development of markets, unit sales and inventories is continually analyzed and monitored by the segments; if necessary, specific marketing and sales programs are implemented.

Volatilities with regard to market developments can also lead to the overall market or regional conditions for the automotive industry developing better than assumed in the internal forecasts and premises, resulting in business opportunities in the market. Opportunities may also arise from an improvement in the competitive situation or a positive development of demand. The utilization of opportunities is supported by sales and marketing campaigns.

Due to the partly difficult financial situation of some **dealerships and vehicle importers**, support actions by Mercedes-Benz Cars & Vans and Daimler Trucks & Buses might become necessary to ensure the performance of the business partners. The financial situation of strategically relevant dealerships and vehicle importers is continuously monitored. The loss of important dealerships and vehicle importers can lead to customer demand not being fully served and lower unit sales. Taking over the costs of contract cancellations and of processing outstanding customer contracts cannot be ruled out as a result of dealer insolvencies and may have a negative impact on earnings.

The launch of new products by competitors, more aggressive pricing policies and poorer effective pricing in the aftersales business can lead to increasing **competitive and price pressure** in the automotive segments and have a negative impact on profitability. Continuous monitoring of competitors is carried out in order to recognize these risks at an early stage. Depending on the situation, product-specific and possibly regionally different measures are taken to support weaker markets. Daimler also applies various programs to boost sales, including financial incentives for customers.

In connection with the sale of vehicles, Daimler offers its customers a wide range of **financing and leasing options**. The resulting risks for the Daimler Mobility segment are mainly due to borrowers' worsening creditworthiness, so receivables might not be recoverable in whole or in part because of customers' insolvency (default or credit risk). Daimler counteracts credit risks by means of creditworthiness checks on the basis of standardized scoring and rating methods, the collateralization of receivables, and effective risk management with a firm focus on monitoring both internal and macroeconomic leading indicators.

Against the background of the covid-19 pandemic, the Daimler Mobility segment has granted selected customers improved payment terms in the form of deferrals, and deferrals were also granted due to government support programs. In order to take into account the increased credit risks due to the impact of the pandemic on the global economy, Daimler Mobility has increased its debt-collection activities as a precautionary measure and has intensified internal monitoring and reporting by Risk Management.

In connection with leasing agreements, risks and opportunities arise if the market value of a leased vehicle at the end of the agreement term differs from the residual value that was originally calculated and forecasted at the time the agreement was concluded and used as a basis for the leasing installments. Particularly at Mercedes-Benz Cars & Vans and Daimler Mobility, risks exist relating to a negative development of used-car markets with a corresponding impact on **vehicles' residual values**. Residual-value management processes are defined to counteract these risks. Depending on the region and the current market situation, the measures taken generally include continuous market monitoring as well as, if required, price-setting strategies or sales promotion measures designed to regulate vehicle inventories. The quality of market forecasts is verified by periodic comparisons of internal and external sources, and, if required, the determination of residual values is adjusted and further developed with regard to methods, processes and systems.

Across all segments, the assessment of general market risks is unchanged compared to the previous year. The impact of market opportunities has increased from "Medium" to "High" due to the potentially stronger development of demand than assumed in the planning of the automotive segments.

Risks and opportunities related to the legal and political framework

The automotive industry is subject to extensive governmental regulation worldwide. Risks and opportunities from the legal and political framework have a considerable influence on Daimler's future business success. Regulations concerning vehicles' emissions, fuel consumption, safety and certification, as well as tariff aspects, play a particularly important role. The possible impact of risks from the legal and political framework remains unchanged at "High" compared to the previous year; the probability of occurrence of risks has decreased from "Medium" to "Low." This is due in particular to the lower probability of occurrence for risks in connection with tariffs. The assessment of the possible impact of opportunities decreased from "Medium" to "Low."

Many countries and regions have already implemented stricter **regulations to reduce vehicles' emissions and fuel consumption** or are currently preparing such laws. They relate, for example, to the environmental impact of vehicles, including limits on noise emissions, as well as pollutants from the emissions caused by production facilities. Non-compliance with regulations applicable in the various regions might result in significant penalties and reputational harm, and might even mean that vehicles could not or could no longer be registered in the relevant markets. This also includes risks from ongoing activities relating to legislation on Real Driving Emissions (RDE). In addition, the risk exists that vehicles already in the markets will have to be reworked. The cost of compliance with these regulations is significant, especially for conventional engines.

Mercedes-Benz Cars & Vans faces the described risks with respect to regulations on mandatory targets for the average fleet fuel consumption and CO₂ emissions of new vehicles. Especially in the markets of China, Europe and the United States, Daimler gives these targets due consideration in its product planning. The increasingly ambitious targets require significant proportions of actual unit sales of plug-in hybrids and cars with other types of electric drive. The ambitious statutory requirements will be difficult to fulfill in some countries. The market success of alternative drive systems is greatly influenced not only by customer acceptance but also by regional market conditions such as the battery-charging infrastructure and state support.

The described regulations for the reduction of vehicles' emissions and fuel consumption also create potential risks for **Daimler Trucks & Buses**, because it will be difficult to fulfill the strict statutory requirements in some countries. Above all, this applies to the markets of Japan, the United States, China and Europe. The ambitious targets, especially in Europe, cannot be achieved solely with conventional technology. Daimler Trucks & Buses will therefore have to apply the latest technologies in order to fulfill these requirements. Achieving the 2025 target will require significant proportions of battery-electric trucks or other electrified drive systems in the actual market, which may only be achievable at higher costs.

Furthermore, the position of the Daimler Group in key foreign markets could be affected by the conclusion of or changes in **free-trade agreements**. If free-trade agreements are concluded without the participation of countries in which Daimler has production facilities, this could result in a competitive disadvantage for Daimler compared with competitors that produce in the countries that are members of the free-trade agreements. In addition, if the content of the free-trade agreements currently used by Daimler is made significantly stricter or the conditions of future free-trade agreements are more restrictive, this could also significantly impair the position of the Daimler Group, as the Group could no longer or only partially benefit from those free-trade agreements. At the same time, however, the conclusion of new free-trade agreements could also result in opportunities for the Daimler Group vis-à-vis its competitors, if the competitors do not produce in the countries concerned, but Daimler does.

The danger exists that individual countries will attempt to defend and improve their competitiveness in the world's markets by resorting to **interventionist and protectionist measures**. The automotive industry is often seen as a key factor to attract investment into a country and increase local value added. This can lead to increased costs if production facilities have to be established or expanded or local purchasing has to be increased. Cutting technological and economic links between major markets can also adversely affect earnings if research and development have to be conducted locally or value chains have to be adjusted because certain technologies are not allowed to be used in the final products. In addition, attempts are being made to limit growth in imports through barriers to market access such as by making certification processes more difficult, **delaying certification** and imposing other complicated **tariff procedures**.

In addition to the described emission and fuel-consumption regulations, **traffic-policy restrictions** for the reduction of traffic jams, noise and emissions are becoming increasingly important in cities and urban areas worldwide. Although this may have an adverse impact on the development of unit sales of conventional vehicles, it may also lead to growing demand for vehicles with alternative drive systems.

Daimler continuously 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.

Procurement market risks and opportunities

Procurement market risks arise for the automotive divisions in particular from fluctuations in prices of raw materials and energy. Financial bottlenecks of suppliers, restricted capacity caused by supplier failures, limited scope for influencing the prices of supplied parts and excessive or insufficient utilization of production capacities at suppliers can also lead to lower earnings. Overall, the risk situation is unchanged compared with the previous year in terms of probability of occurrence at "Medium" and possible impact at "High." The impact of the opportunities is also unchanged at "Medium."

The automotive segments of the Daimler Group require certain raw materials for the manufacture of vehicle components and vehicles, which are purchased on the world market. The level of costs depends on the **price development of raw materials**. Due to largely unchanged macroeconomic conditions, price fluctuations are expected with uncertain and inconsistent trends also for the year 2021. For example, raw-material markets can be impacted by uncertainties and political crises – combined with possible supply bottlenecks – as well as by volatile demand for specific raw materials. In general, the ability to pass on the higher costs of commodities and other materials in the form of higher prices for manufactured vehicles is limited because of strong competitive pressure in the international automotive markets. Rising raw-material prices may therefore have a negative impact on the profit margins of the vehicles sold and thus lead to lower earnings in the respective segment.

The financial situation of some suppliers remains tense due to the gloomy market environment. The resulting possible production losses at suppliers may cause an interruption in the supply chain of the Daimler Group's automotive segments and prevent vehicles from being completed and delivered to customers on time. In order to counteract such interruptions in the supply chain, support measures may be necessary to ensure production and sales by suppliers. Supplier risk management aims to identify potential **financial bottlenecks for suppliers** at an early stage and to initiate suitable countermeasures. Specifically, depending on the warning signals recorded and the internal classification, regular reporting dates are agreed upon for suppliers at which key performance indicators are reported to Daimler and any support measures can be determined if necessary.

Due to, among other things, the planned electrification of new model series and the better-than-expected recovery of demand for vehicles, Mercedes-Benz Cars & Vans in particular is faced with the risk that Daimler will require changed volumes of components from suppliers. This could result in **over- or under-utilization of production capacities** for certain suppliers, and thus lead to supply-chain disruption. Uncertainties related to the covid-19 pandemic may also lead to supply bottlenecks and thus production interruptions. If suppliers cannot cover their fixed costs, there is also the risk that they may demand compensation payments. Necessary capacity expansion at suppliers' plants could also require cost participation.

Company-specific risks and opportunities

The following section describes the company-specific risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table [7 B.60](#).

Production and technology risks and opportunities

Technical developments and innovations are of key importance for the safe and sustainable mobility of the future. Through the design of the product range, technical innovations are integrated in the strategic product planning of the automotive segments. Technological risks can arise especially as a result of increasing technical complexity, the continually rising scope of requirements to be fulfilled in terms of emissions, fuel consumption and safety, as well as meeting and steadily raising the Daimler Group's quality standards. These risks exist in the automotive segments particularly in connection with launching and manufacturing the products. Risks cannot be ruled out that could have a negative impact on earnings also in relation to the increasing automation and connectivity of vehicles and production facilities.

In the context of product launches in the automotive segments, the required parts and equipment components have to be available. To avoid restrictions in this context, the related processes are continuously evaluated and improved. In order to secure and enhance the long-term future viability of production facilities in the automotive segments, modernization, expansion, construction and restructuring measures are carried out as required. The **execution of modernization activities and the launch of new products** are generally connected with high investments. Inefficiencies in the production process can occur, and as a consequence, a temporary reduction in production volumes. Furthermore, the planned increase in battery production due to the increasing electrification of the vehicle fleet means that initial problems during the production of the various battery types cannot be ruled out, and can have a negative impact on earnings.

In principle, there is a danger that reduced plant availability or the failure of **production equipment or production plants** may cause internal bottlenecks that would consequently generate costs. These risks mainly exist for Mercedes-Benz Cars & Vans. Production equipment is continuously maintained and modernized. As a precaution, spare parts are held available or, if required, spare machines are purchased for the production plants that might be at risk.

Capacity restrictions on the availability of batteries for certain vehicle models, interruptions in the supply chain and possible interruptions of supply by energy providers can lead to bottlenecks, especially at Mercedes-Benz Cars & Vans. New technical requirements could also lead to restrictions on the sale of vehicles already produced by Daimler Trucks & Buses. Restrictions on certain equipment components in new vehicle models and the lack of availability of vehicle parts at the right time could also mean that vehicles could not be handed over to customers as planned. In order to avoid such **bottleneck situations**, importance is placed upon being able to compensate for capacity constraints through forward planning, with a special focus on the uncertainty caused by the covid-19 pandemic. In addition, supply chains and the availability and quality of products are continuously monitored within the context of managing the entire value chain. Supplier management is undertaken for the prevention of risks with the aim of ensuring the quantity and quality of the components required to manufacture the vehicles. The lack of availability and quality problems with certain vehicle parts can lead to production downtimes and cause costs. In connection with possible production increases due to higher utilization of production capacities than planned, there are opportunities at Mercedes-Benz Cars & Vans that could lead to higher sales volumes and thus have a positive impact on earnings.

Warranty and goodwill cases could arise at the Daimler Group if the quality of products does not meet requirements, regulations are not fully complied with, or support cannot be provided in the required form in connection with product problems and product care. Such warranty and goodwill cases as well as quality problems both with components in vehicles and in connection with technical innovations in vehicles require adjustments that can lead to expenses. Possible claims in connection with such risks are examined and, if necessary, the appropriate measures are initiated for the affected products.

In the third quarter of 2020, Daimler AG and Mercedes-Benz USA, LLC (MBUSA) reached agreements with various US authorities to settle civil and environmental claims regarding emission control systems of certain Mercedes-Benz diesel vehicles, which are still subject to final approval by the court. We refer to our further explanations under [Legal and tax risks and opportunities](#). If the court approves the settlements and the settlements become effective, Daimler AG and MBUSA

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Company-specific risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
Production and technology risks	Low	High	Production and technology opportunities	Medium
Information technology risks	Low	High	Information technology opportunities	-
Personnel risks	Medium	High	Personnel opportunities	-
Risks related to equity investments and cooperations with partners	Low	Low	Opportunities related to equity investments and cooperations with partners	Low

have agreed to, among other things, pay civil penalties, conduct an emission modification program for affected vehicles, provide extended warranties, undertake a nationwide mitigation project, take certain corporate compliance measures and make other payments. If the aforementioned obligations are not complied with, there will be the risk that cost-intensive measures will have to be taken and/or significant stipulated penalties will become due.

The probability of occurrence and possible impact of production and technology risks are unchanged compared to the previous year across all segments. Opportunities have increased from “Low” to “Medium” as a result of better-than-forecast utilization of production capacities.

Information technology risks and opportunities

The systematically pursued digitization strategy enables Daimler to utilize new opportunities to increase customer benefit and the value of the company. Nonetheless, the high penetration of information technology (IT) at all divisions also brings risks for their business and production processes, as well as for their services and products.

The ever-growing threat from cybercrime and the spread of aggressive malicious code brings risks that can affect the availability, integrity and confidentiality of information and IT-supported operating resources. Despite extensive precautions, in the worst-case scenario, this can lead to a temporary interruption of IT-supported business processes with severe negative effects on the Group’s earnings. In addition, the loss or misuse of sensitive data may under certain circumstances lead to a loss of reputation. In particular, stricter regulatory requirements such as the EU Data Protection Directive may, among other things, give rise to claims by third parties and result in costly regulatory requirements and penalties with an impact on earnings.

It is essential for the globally active Daimler Group and its wide-ranging business and production processes that information is available and can be exchanged in an up-to-date, complete and correct form. Daimler’s internal framework for IT security is based on international standards and its protective measures also apply industry standards and good practice. New regulatory requirements for cyber security and cyber security management systems are taken into account in the further development of our processes and policies. Appropriately secure IT systems and a reliable IT infrastructure must be used to protect information. Cyber threats must be identified over the entire lifecycle of applications and IT systems, and dealt with in line with their seriousness. Particular attention is paid to risks that could result in the interruption of business processes due to the failure of IT systems or which could cause the loss or corruption of data. The advancing digitization and connectivity of production equipment is accompanied by coordinated technical and organizational security measures.

Due to growing requirements concerning the confidentiality, integrity and availability of data, Daimler has implemented various preventive and corrective measures so that the related risks are minimized and possible damage is limited. For example, the Group reduces potential interruptions of operating processes in data centers by means of mirrored data sets, decentralized data storage, outsourced data backups and IT systems designed for high availability. Emergency plans are developed and employees are trained and regularly sensitized in order to maintain operating capability. Specific threats are analyzed and countermeasures are coordinated at a globally active Cyber Intelligence & Response Center. The protection of products and services against the danger of hacking and cyber-crime is continually developed.

The possible impact and probability of occurrence of information-technology risks are unchanged compared to the previous year.

Personnel risks and opportunities

Competition for highly qualified staff and management is still very intense in the industry and the regions in which Daimler operates. The future success of the Daimler Group also depends on the extent to which it succeeds over the long term in recruiting, integrating and retaining specialist employees. The established human resources instruments take such personnel risks into consideration. One focus of human resources management is the targeted personnel development and further training of the workforce. In order to remain successful as a company, we continuously develop the way we work together and our management culture.

Due to 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. This is addressed by measures taken in the area of generation management that do justice to the scope of the issue. We counter economic, market and competitive fluctuations with the established time and flexibility instruments to enable us to react appropriately to the situation. In order to achieve the long-term reduction in personnel costs necessary for the transformation, Daimler’s management and the General Works Council concluded an agreement in 2019 which includes a staff-reduction program. Due to the covid-19 pandemic and the fact that the staff-reduction program is voluntary for both parties, there is a risk that implementation may not be able to take place to the full extent planned. Risks also exist in particular due to upcoming negotiations on wage conditions in the metal and electrical industry and the associated possible production losses.

Due to the ongoing transformation process, the probability of occurrence of personnel risks has increased from “Medium” to “High.” The possible impact is unchanged compared with the previous year.

Risks and opportunities related to equity investments and cooperation with partners

Cooperation with partners in associated companies and joint ventures is of key importance to Daimler, both in the transformation toward electric mobility and comprehensive digitization and in connection with mobility solutions. In particular with new technologies, these shareholdings help to utilize synergies and improve cost structures in order to respond successfully to the competitive situation in the automotive industry.

The Daimler Group generally participates in the risks and opportunities of associated companies and joint ventures in line with its equity interest, and is also subject to share-price risks and opportunities if such companies are listed on a stock exchange.

The remeasurement of an associated company or joint venture in relation to its carrying value can lead to risks and opportunities for the segment to which it is allocated. Furthermore, ongoing business activities, especially the integration of employees, technologies and products, can lead to risks. In addition, further financial obligations or an additional financing requirement can arise. Risks from associated companies and joint ventures exist above all at Daimler Trucks & Buses and Daimler Mobility, as well as at the associated companies and joint ventures directly allocated to the Group. The associated companies and joint ventures are subject to a monitoring process so that, if required, decisions can be promptly made on whether or not measures can be taken to support or ensure their profitability. The recoverable value of investments in associated companies and joint ventures is also regularly monitored.

The possible impact of risks has decreased from “Medium” to “Low” due to measures already taken in the portfolio of equity interests. The overall assessment of the probability of occurrence of both risks and opportunities remains unchanged compared with the previous year.

Financial risks and opportunities

The following section deals with the financial risks and opportunities of the Daimler Group. Risks and opportunities can have negative or positive effects on the profitability, cash flows and financial position of the Daimler Group. The probability of occurrence and possible impact of these risks and opportunities is presented in table 7 B.61. The probability of occurrence and impact of the financial risks and opportunities are essentially unchanged from the previous year. Only in the case of country risks, the possible impact has decreased from “Medium” to “Low” because of declining risk factors, and with risks of limited access to capital markets, our assessment of the probability of occurrence has increased from “Low” to “Medium” due to the increased volatility of the financial markets.

In principle, the Group’s operating and financial risk exposures underlying its financial risks and opportunities can be divided into 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 country exposures), the risks outweigh the opportunities.

Daimler is generally exposed to risks and opportunities from changes in market prices such as currency exchange rates, interest rates and commodity prices. Market price changes can have a negative or positive influence on the Group’s profitability, cash flows and financial position. Daimler systematically 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 where needed, thus limiting both market price risks and opportunities.

In addition, the Group is exposed to credit-, country- and liquidity-related risks, risks of restricted access to capital markets, risks of early credit repayment requirements and risks from changes in credit ratings. As part of the risk management process, Daimler regularly assesses these risks by considering changes in key economic indicators and market information. Pension plan assets to cover retirement and healthcare benefits (market-sensitive investments including equities and interest-bearing securities) are not included in the following analysis.

Exchange rate risks and opportunities

The Daimler Group’s global orientation means that its business operations and financial transactions are connected with risks and opportunities related to fluctuations in currency exchange rates. This applies in particular to fluctuations of the euro against the US dollar, Chinese renminbi, British pound and other currencies such as those of growth markets. An exchange rate risk or opportunity arises in business operations primarily when revenue is generated in a currency different from that of the related costs (transaction risk). This applies in particular to Mercedes-Benz Cars & Vans. A major portion of its revenue is generated in foreign currencies while most of its production costs are denominated in euros. Daimler Trucks & Buses is also exposed to such transaction risks, but to a lesser degree because of its worldwide production network. Regularly

B.61

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
Commodity price risks	Low	Low	Commodity price opportunities	Low
Credit risks	Low	Low	Credit opportunities	-
Country risks	Low	Low	Country opportunities	-
Risks of restricted capital-market access	Medium	High	Opportunities of restricted capital-market access	-
Risks of credit repayment requirements	Low	Low	Opportunities of credit repayment requirements	-
Risks from changes in credit ratings	Medium	Low	Opportunities from changes in credit ratings	Low
Risks related to pension plans	Low	High	Opportunities relating to pension plans	High

updated currency risk exposures are successively hedged with suitable financial instruments (predominantly currency forwards and currency options) in accordance with exchange rate expectations, which are continually reviewed, whereby both risks and opportunities are limited. Any overcollateralization caused by changes in exposure is generally reversed by suitable measures without delay. Exchange rate risks and opportunities 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

Changes in interest rates can create risks and opportunities for business operations as well as for financial transactions. Daimler employs 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 Mobility. Interest rate risks and opportunities arise when fixed-interest periods are not congruent between the asset and liability sides of the balance sheet. By means of refinancing coordinated with the terms of the financing agreements, the risk of maturity mismatch is minimized from both an interest-rate and a liquidity perspective. Remaining interest-rate risks are managed with the use of derivative financial instruments. 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 are used to achieve the desired interest rate maturities and asset/liability structures (asset and liability management).

Commodity price risks and opportunities

As described in the section on procurement market risks and opportunities, Daimler is exposed to risks arising from changes in prices of raw materials. A small proportion of the raw-material price risks, primarily from the planned purchase of certain metals, is reduced through the use of derivative financial instruments.

Credit risks

Credit risk describes the risk of financial loss resulting from a counterparty failing to meet its contractual payment obligations. Credit risk includes both the direct risk of default and the risk of a deterioration in creditworthiness, as well as concentration risks.

The Group is exposed to credit risks which result primarily from its financial services activities and from the operations of its vehicle business. The risks from leasing and sales financing are dealt with in the  [General market risks and opportunities](#) section.

Credit risks also arise from the Group's liquid assets. Should defaults occur, this would adversely affect the Group's financial position, cash flows and profitability. The limit methodology for liquid funds deposited with financial institutions has been continuously further developed in recent years. In connection with investment decisions, priority is placed on the borrowers' very high creditworthiness and on balanced risk diversification. Most liquid assets are held in investments with an external rating of "A" or better.

Country risks

Country risk describes the risk of financial loss resulting from changes in political, economic, legal or social conditions in the respective country, for example due to sovereign measures such as expropriation or a ban on currency transfers. Daimler is exposed to country risks that primarily result from cross-border financing or collateralization for Group companies or customers, from investments in subsidiaries and joint ventures, and from cross-border trade receivables. Country risks also arise from cross-border cash deposits with financial institutions. The Group addresses these risks by setting country limits (e.g., for hard-currency portfolios of Daimler Mobility companies). Daimler also has an internal rating system that divides all countries in which it operates into risk categories.

Risks of restricted access to capital markets

Liquidity risks arise when a company is unable to fully meet its financial obligations. In the normal course of business, Daimler uses bonds, commercial paper and securitized transactions, as well as bank loans in various currencies, primarily with the aim of refinancing its leasing and sales-financing business. An increase in the cost of refinancing would have a negative impact on the competitiveness and profitability of our financial services business to the extent that the higher refinancing costs cannot be passed on to customers; a limitation of the financial services business would also have negative consequences for the vehicle business. Access to capital markets in individual countries may be limited by government regulations or by a temporary lack of absorption capacity. In addition, pending legal proceedings as well as Daimler's own business policy considerations and developments may temporarily prevent the Group from covering any liquidity requirements by means of borrowing in the capital markets.

Risks of premature credit repayment requirements

Daimler may be required to make premature repayment of special-purpose loans in the case of adverse results of ongoing legal proceedings. Any resulting refinancing requirement could have to be concluded at a higher cost.

Risks and opportunities from changes in credit ratings

Risks and opportunities exist in connection with potential downgrades or upgrades to credit ratings by the rating agencies, and thus to Daimler's creditworthiness. Downgrades could have a negative impact on the Group's financing if such a downgrade leads to an increase in the costs for external financing or restricts the Group's ability to obtain financing. A credit rating downgrade could also discourage investors from investing in Daimler AG.

Risks and opportunities relating to pension plans

Daimler has pension benefit obligations and to a lesser degree, obligations relating to healthcare benefits, which are largely covered by plan assets. The balance of pension obligations less plan assets constitutes the carrying amount or funded status of those employee benefit plans. The measurement of pension obligations and the calculation of net pension expense are based on certain assumptions. Even small changes in those assumptions such as a change in the discount rate have a negative or positive effect on the funded status and Group equity in the current financial year, and lead to changes in the periodic net pension expense in the following financial year. The fair value of plan assets is determined to a large degree by developments in the capital markets. Unfavorable or favorable developments, especially relating to share prices and fixed-interest securities, reduce or increase the carrying value of plan assets. A change in the composition of plan assets can also have a positive or negative impact on the fair value of plan assets. The broad diversification of investments, the selection of asset managers on the basis of quantitative and qualitative analyses, and the ongoing monitoring of returns and risks contribute to a reduction in the investment risk. The structure of pension obligations is taken into consideration with the determination of the investment strategy for the plan assets in order to reduce fluctuations of the funded status.

Further information on the pension plans and their risks is provided in [Note 22](#) of the Notes to the Consolidated Financial Statements. Further information on financial risks, risk-limiting measures and the management of these risks is provided in [Note 33](#) of the Notes to the Consolidated Financial Statements. Information on the Group's financial instruments is provided in [Note 32](#) of the Notes to the Consolidated Financial Statements.

Legal and tax risks and opportunities

The Group continues to be exposed to legal and tax risks. Provisions are recognized for those risks if and insofar as they are likely to be utilized and the amounts of the obligations can be reasonably estimated.

Legal risks

Regulatory risks. The automotive industry is subject to extensive governmental regulations worldwide. Laws in various jurisdictions govern occupant safety and the environmental impact of vehicles, including emissions levels, fuel economy and noise, as well as the emissions of the plants where vehicles or parts thereof are produced. In case regulations applicable in the different regions are not complied with, this could result in significant penalties and reputational harm or the inability to certify vehicles in the relevant markets. The cost of compliance with these regulations is considerable, and in this context, Daimler continues to expect a significant increase in such costs.

Risks from legal proceedings in general. Daimler AG and its subsidiaries are confronted with various legal proceedings and claims as well as governmental investigations and orders (legal proceedings) on a large number of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights (especially patent infringement lawsuits), warranty claims, environmental matters, antitrust matters (including actions for damages) as well as investor litigation. Product-related litigation involves claims alleging faults in vehicles. Some of these claims are asserted by way of class actions. If the outcome of such legal proceedings is detrimental to Daimler or such proceedings are settled, the Group may be required to pay substantial compensatory and punitive damages or to undertake service actions, recall campaigns, monetary penalties or other costly actions. Some of these proceedings and related settlements may have an impact on the Group's reputation.

Risks from legal proceedings in connection with diesel exhaust gas emissions – governmental proceedings.

Daimler is continuously subject to governmental information requests, inquiries, investigations, administrative orders and proceedings relating to environmental, criminal, antitrust and other laws and regulations in connection with diesel exhaust emissions.

Several authorities and institutions worldwide were, and still are, active in the form of inquiries, investigations, procedures and/or orders. These activities particularly relate to test results, the emission control systems used in Mercedes-Benz diesel vehicles and/or Daimler's interaction with the relevant authorities as well as related legal issues and implications, including, but not limited to, under applicable environmental, criminal and antitrust laws.

In the United States, Daimler AG and Mercedes-Benz USA, LLC (MBUSA) reached agreements in the third quarter of 2020 with various authorities to settle civil and environmental claims regarding emission control systems of certain diesel vehicles. The involved US authorities are the environmental agencies Environmental Protection Agency ("EPA") and California Air Resources Board ("CARB"), the Environmental and Natural Resources Division of the U.S. Department of Justice ("DOJ"), the California Attorney General's Office and the U.S. Customs and Border Protection ("CBP").

The authorities take the position that Daimler failed to disclose Auxiliary Emission Control Devices (AECs) in certain of its US diesel vehicles and that several of these AECs are illegal defeat devices. As part of these settlements, Daimler denies the allegations by the authorities and does not admit liability, but has agreed to, among other things, pay civil penalties, conduct an emission modification program for affected vehicles, provide extended warranties, undertake a nationwide mitigation project, take certain corporate compliance measures and make other payments. The company has cooperated fully with the US authorities. The settlements are subject to final court approval. Upon approval, they will be final and effective. Daimler expects costs of the settlements with the US authorities of approximately USD 1.5 billion. The estimated cost for the US consumer class action mentioned below amounts to around USD 700 million. In addition, Daimler estimates further expenses of a mid three-digit-million euro amount to fulfill requirements of these settlements.

As already reported, in April 2016, the DOJ requested that Daimler conduct an internal investigation. While Daimler has conducted such internal investigation as part of the DOJ's investigation, the DOJ's investigation is ongoing. In Canada, the Canadian environmental regulator Environment and Climate Change Canada ("ECCC") is conducting an investigation in connection with Diesel exhaust emissions. Daimler continues to cooperate with the investigating authorities.

In Germany, the Stuttgart district attorney's office is conducting criminal investigation proceedings against Daimler employees on the suspicion of fraud and criminal advertising. In February 2019, the Stuttgart district attorney's office also initiated a formal investigation proceeding against Daimler AG with respect to an administrative offense. In September 2019, it issued a fine notice against Daimler based on a negligent violation of supervisory duties in the amount of €870 million, which has become legally binding, thereby concluding the administrative offense proceedings against Daimler.

Since 2018, the German Federal Motor Transport Authority ("KBA") has repeatedly issued subsequent auxiliary provisions for the EC type approvals of certain Mercedes-Benz diesel vehicles, and has ordered mandatory recalls as well as, in some cases, stops of the first registration. In each of those cases, it held that certain calibrations of specified functionalities in certain Mercedes-Benz diesel vehicles are to be qualified as impermissible defeat devices. Daimler has a contrary legal opinion on this question. Since 2018, however, it has (in view of the KBA's interpretation of the law as a precautionary measure) implemented a temporary delivery and registration stop with respect to certain models, also covering the used-car, leasing and financing businesses, and is constantly reviewing whether it can lift this delivery and registration stop in whole or in part. Daimler has filed timely objections against the KBA's administrative orders mentioned above. In early 2021, the KBA issued objection orders ("Widerspruchsbescheide") in certain of the proceedings not following the arguments brought forward by Daimler. Since Daimler still does have a different understanding of the relevant legal provisions, it currently analyzes whether the controversial questions at issue should be clarified in a court of law. Irrespective of such objections and possibly following lawsuits, Daimler continues to cooperate fully with the KBA. The new calibrations requested by the KBA are being processed, and for a substantial proportion of the vehicles, the relevant software has already been

approved by the KBA; the related recalls have insofar been initiated. It cannot be ruled out that under certain circumstances, software updates may have to be reworked, or further delivery and registration stops may be ordered or resolved by the Company as a precautionary measure, also with regard to the used-car, leasing and financing businesses. In the course of its regular market supervision, the KBA is routinely conducting further reviews of Mercedes-Benz vehicles and is asking questions about technical elements of the vehicles. In addition, Daimler continues to be in a dialogue with the German Ministry for Transport and Digital Infrastructure (BMVI) to conclude the analysis of the diesel-related emissions matter and to further the update of affected customer vehicles. In light of the aforementioned administrative orders issued by the KBA, and continued discussions with the KBA and the BMVI, it cannot be ruled out completely that additional administrative orders may be issued in the course of the ongoing and/or further investigations. Since September 1, 2020, this also applies to responsible authorities of other member states and the European Commission, which conduct market surveillance under the new European Type Approval Regulation and can take measures upon assumed non-compliance, irrespective of the place of the original type approval.

In the course of its formal investigation into possible collusion on clean emission technology, the European Commission sent a statement of objections to Daimler and other automobile manufacturers in April 2019. In this context, Daimler filed an application for immunity from fines (leniency application) with the European Commission some time ago.

In addition to the aforementioned authorities, national cartel authorities and other authorities of various foreign States, the South Korean Ministry of Environment, the South Korean competition authority (Korea Fair Trade Commission) and the Seoul public prosecutor's office (South Korea) are conducting various investigations and/or procedures in connection with Diesel exhaust emissions.

Daimler continues to fully cooperate with the authorities and institutions. Irrespective of such cooperation and in light of the recent developments, it is possible that further regulatory, criminal and administrative investigative and enforcement actions and measures relating to Daimler and/or its employees will be taken or administrative orders will be issued. Such actions, measures and orders may include subpoenas, that is, legal instructions issued under penalty of law in the process of taking evidence, or other requests for documentation, testimony or other information, or orders to recall vehicles, further search warrants, a notice of violation or an increased formalization of the governmental investigations, coordination or proceedings, including the resolution of proceedings by way of a settlement. Additionally, further delays in obtaining regulatory approvals necessary to introduce new or recertify existing vehicle models could occur.

In light of the legal positions taken by EPA, CARB and the KBA, it is likely that, besides these authorities, one or more regulatory and/or investigative authorities worldwide will reach the conclusion that other passenger cars and/or commercial vehicles with the brand name Mercedes-Benz or other brand names of the Daimler Group are equipped with impermissible defeat devices. Likewise, such authorities could take the view that certain functionalities and/or calibrations are not proper and/or were not properly disclosed. Furthermore, the authorities have increased scrutiny of Daimler's processes regarding running-change, field-fix and defect reporting as well as other compliance issues. As described above, the Stuttgart district attorney's office's administrative offense proceedings and the proceedings underlying the civil settlements with the US authorities have been resolved. The other inquiries, investigations, legal actions and proceedings as well as the replies to the governmental information requests and the objection proceedings against KBA's administrative orders, are in part still ongoing and open. Hence, Daimler cannot predict the outcome of these inquiries, investigations and proceedings at this time. Due to the outcome of the administrative offense proceedings by the Stuttgart district attorney's office against Daimler and the civil settlements with the US authorities, as well as the above and any potential other information requests, inquiries, investigations, administrative orders and proceedings, it is possible that Daimler will become subject to, as the case may be, significant additional monetary penalties, fines, disgorgements of profits, remediation requirements, further vehicle recalls, further registration and delivery stops, process and compliance improvements, mitigation measures and the early termination of promotional loans, and/or other sanctions, measures and actions (such as the exclusion from public tenders), including further governmental investigations and/or administrative orders and additional proceedings. The occurrence of the aforementioned events in whole or in part could cause significant collateral damage including reputational harm. Further, due to negative allegations, determinations or findings with respect to technical or legal issues by one of the various governmental agencies, other agencies – or also plaintiffs – could also adopt such allegations, determinations or findings, even if such allegations, determinations or findings are not within the scope of such authority's responsibility or jurisdiction. Thus, a negative allegation, determination or finding in one proceeding, such as the fine notice issued by the Stuttgart district attorney's office or the allegations underlying the civil settlements with the US authorities, carries the risk of being able to have an adverse effect on other proceedings, also potentially leading to new or expanded investigations or proceedings, including lawsuits.

In addition, Daimler's ability to defend itself in proceedings could be impaired by the fine notice issued by the Stuttgart district attorney's office, the civil settlements with the US authorities and by the underlying allegations and other unfavorable allegations, as well as by findings, results or developments in any of the information requests, inquiries, investigations, administrative orders, legal actions and/or proceedings discussed above.

Risks from legal proceedings in connection with diesel exhaust gas emissions – court proceedings. Since the beginning of 2016, several consumer class actions in U.S. federal district courts have become pending in the United States, which have been consolidated into a consolidated class action against Daimler AG and MBUSA before the U.S. District Court for New Jersey. In the class action, plaintiffs alleged that Daimler AG and MBUSA used devices that impermissibly impair the effectiveness of emission control systems in reducing nitrogen-oxide (NO_x) emissions and which cause excessive emissions from vehicles with diesel engines. In addition, plaintiffs alleged that consumers were deliberately deceived in connection with the advertising of Mercedes-Benz diesel vehicles.

In the third quarter of 2020, Daimler AG and MBUSA reached a settlement with plaintiffs' counsel of this consumer class action. As part of the settlement, Daimler AG and MBUSA deny the material factual allegations and legal claims asserted by the class action plaintiffs, but have agreed to provide payments to certain current and former diesel vehicle owners and lessees. The estimated cost of the class action settlement is approximately USD 700 million. Daimler expects costs of the settlements with the US authorities mentioned above in the amount of approximately USD 1.5 billion. In addition, Daimler estimates further expenses of a mid three-digit-million euro amount to fulfill requirements of these settlements. The settlement with the US consumer class action plaintiffs is still subject to final court approval.

In a separate lawsuit filed by the State of Arizona in January 2019, the plaintiff claims that, amongst others, Daimler AG and MBUSA deliberately deceived consumers in connection with advertising Mercedes-Benz diesel vehicles. Consumer class actions containing similar allegations were filed against Daimler AG and further Daimler Group companies in Canada in April 2016, in the United Kingdom since May 2020, in the Netherlands in June and December 2020 as well as against Daimler AG in Israel in February 2019. In a separate lawsuit filed by the Environmental Protection Commission of Hillsborough County, Florida in September 2020, the plaintiff claims that, amongst others, Daimler AG and MBUSA violated municipal regulations prohibiting vehicle tampering and other conduct by using alleged devices claimed to impair the effectiveness of emissions control systems.

In Germany, a large number of customers of diesel vehicles have filed lawsuits for damages or rescission of sales contracts. They assert that the vehicles contained inadmissible defeat devices and/or showed impermissibly high levels of emissions or fuel consumption. They refer to, in particular, the German Federal Motor Transport Authority's recall orders mentioned above. Given the current development of case numbers, we expect a continued high number of lawsuits being filed in this respect.

Furthermore, class actions have been filed in the United States and Canada alleging anticompetitive behavior relating to vehicle technology, costs, suppliers, markets and other competitive attributes, including diesel emissions control technology.

Daimler AG and the respective other affected companies of the Group regard the lawsuits set out above as being without merit and will – except for the US consumer class action settlement – defend themselves against the claims.

A securities class action lawsuit was pending in the United States on behalf of investors in Daimler AG American Depositary Receipts which alleged that the defendants had made materially false and misleading statements about diesel emissions in Mercedes-Benz vehicles. The parties have agreed to settle the lawsuit. On December 23, 2020, the court granted final approval of the settlement. Upon expiry of the appeal period on January 22, 2021, the proceedings were legally terminated.

In addition, investors have filed lawsuits in Germany alleging the violation of disclosure requirements. Daimler AG regards these lawsuits as being without merit and will defend itself against them. In this context, motions to initiate model proceedings in accordance with the Act on Model Proceedings in Capital Markets Disputes (KapMuG) have been filed by investors as well as by Daimler AG. On January 14, 2021, the Stuttgart Regional Court issued an order for reference to commence such model case proceedings before the Stuttgart Higher Regional Court. Daimler AG will continue to defend itself against the investors' allegations also in these model case proceedings.

Daimler's ability to defend itself in the court proceedings could be impaired by the US consumer class action settlement as well as unfavorable allegations, findings, results or developments in any of the governmental or other court proceedings discussed above, in particular by the fine notice issued by the Stuttgart district attorney's office and by the civil settlements with the US authorities.

Risks from other legal proceedings. Following the settlement decision by the European Commission adopted on July 19, 2016 concluding the trucks antitrust proceedings, Daimler AG and Daimler Truck AG are facing customers' claims for damages to a considerable degree. Respective legal actions, class actions and other forms of legal redress have been initiated in various states in and outside of Europe and should further be expected. Daimler takes appropriate legal remedies to defend itself.

As legal proceedings are fraught with a large degree of uncertainty, it is possible that after their final resolution, some of the provisions we have recognized for them 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.

It cannot be ruled out that the regulatory risks and risks from legal proceedings discussed above, individually or in the aggregate, may materially adversely impact the profitability, cash flows and financial position of the Group or any of its segments.

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 financial position.

Further information on legal proceedings is provided in  [Note 30](#) of the Notes to the Consolidated Financial Statements.

Tax risks and opportunities

Daimler AG and its subsidiaries operate in many countries worldwide and are therefore subject to numerous different statutory provisions and tax audits. Any changes in legislation and jurisdiction, as well as different interpretations of the law by the fiscal authorities – especially in the field of cross-border transactions – may be subject to considerable uncertainty. It is therefore possible that the provisions recognized will not be sufficient, which could have negative effects on the Group's net profit and cash flows.

Positive effects on the Group's net profit and cash flows are also possible as a result of retroactive legislation, future court rulings or changes in the opinions of the tax authorities.

Any changes or interventions by the fiscal authorities are continuously monitored by the tax department and measures are taken if required.

In addition, if future taxable income is not earned or is too low, there is a risk that the tax benefit from loss carryforwards and tax-deductible temporary differences may not be recognized or may no longer be recognized in full, which could have a negative impact on net profit. However, there is an accounting opportunity that tax benefits currently not recognized in full may be utilized or recognized in future years and could thus also have a positive impact on the Group's net profit.

Overall assessment of the risk and opportunity situation

The overall view of the Group's risk and opportunity situation is the sum of the described individual risks and opportunities of all risk and opportunity categories.

In addition to the risk categories described above, unforeseeable events can have a negative impact on the business operations and thus on the Daimler Group's profitability, cash flows, financial position and reputation. In particular, legal risks or social violations by partners and suppliers can have a negative influence on the reputation of the Daimler Group, the environment and the employees of partner companies and suppliers. As one of the basic principles of corporate activity, Daimler therefore pays particular attention to compliance with legal and ethical rules – also when selecting partners and suppliers. In order to recognize risks and opportunities at an early stage and to deal successfully with the current risk and opportunity situation, the established risk and opportunity management system is continuously monitored and further developed.

The overall risk and opportunity situation of the Daimler Group remains essentially unchanged. No risks are recognizable – neither on the balance sheet date nor at the time of preparing the consolidated financial statements – that either alone or in combination with other risks could endanger the continued existence of the Group.