

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

B.60

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