

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 CO<sub>2</sub> 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.