

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.