

## **RISK FACTORS RELATED TO MERCEDES-BENZ SOUTH AFRICA LIMITED AND DAIMLER AG**

### **Risk Factors relating to the Issuer and Guarantor**

The Issuer is a wholly-owned subsidiary of the Guarantor. The Issuer's payment obligations on the Notes in respect of payment of principal and interest are irrevocably and unconditionally guaranteed by the Guarantor. Accordingly, the Notes are affected, in particular, by the same risk factors as those that affect the business and operations of the Guarantor and/or its consolidated subsidiaries.

Therefore, references in this section to Daimler AG (DAG) and/or its consolidated subsidiaries shall include reference to the Issuer.

Many factors could affect DAG's business, financial condition, cash flows and results of operations. DAG is subject to various risks resulting from changing economic, political, social, industry, business and financial conditions. As of the Programme Date, the principal risks which could affect DAG's business, financial condition, profitability, cash flows, results of operations and future business results are described below. DAG's overall risk situation is the sum of the individual risks of all risk categories for the divisions and the corporate functions and legal entities. In general, the reporting of risks takes place for the individual segments. If no segment is explicitly mentioned, the risks described relate to all divisions.

In addition, risks that are not yet known or assessed as not material can influence profitability, cash flows and financial position.

### **Industry and Business Risks**

The following section describes industry and business risks of the Daimler Group.

#### *Economic risks*

Economic risks constitute the framework for the risks listed in the following categories. Overall economic conditions have a significant influence on vehicle sales markets and thus on the Group's success.

Economic risks are linked to assumptions and forecasts concerning general developments.

The trade conflict between the United States and China continues to be a significant risk for the further development of the world economy. Furthermore, the threat by the United States to impose additional tariffs on imported vehicles and parts, including from the European Union, still exists. These two factors could significantly affect the development of unit sales and earnings, especially at 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-political concepts. This would have significant impacts on the global value chains at Mercedes-Benz Cars & Vans and Daimler Trucks and Buses, leading to higher costs and adversely affecting business developments and sales possibilities.

Even without a further escalation of the various trade conflicts, the ongoing uncertainty could ensure that the global investment cycle weakens even more than previously assumed. A further slowdown in investment activity – particularly in North America and Europe – would adversely affect the unit sales of heavy-duty commercial vehicles in particular and would therefore have a particularly negative impact on the unit sales and profitability of Daimler Trucks & Buses.

If the recession, which has so far been limited to the industrial sector, spreads more to the service sector and spreads even more than before to the United States, in addition to the euro zone and China, this would have noticeable effects on employment and wages in those regions. This would have a significant impact on consumer confidence and consumption, one of the most important drivers of the current economic

expansion. The resulting lower growth or even decline in overall economic consumption would have a correspondingly negative impact on the sales prospects of Mercedes-Benz Cars & Vans in particular.

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. The risk of a disorderly withdrawal of the United Kingdom from the European Union due to the Brexit of January 31, 2020 and the related exit agreement no longer exists. However, uncertainty is now likely to shift to the negotiations on a future agreement between the UK and the EU, which according to the transitional agreement would have to be concluded by the end of 2020 in order to prevent customs duties as of January 2021. These negotiations are likely to be very difficult and connected with a high degree of political uncertainty. In extreme cases, renewed distortions in the European financial markets and corresponding decreases in economic growth are to be expected. This would significantly impact growth above all in the United Kingdom, with an adverse effect on the development of the Group's unit sales across all segments. In the euro zone, the risk of political conflicts also remains increased. Phases of political uncertainty could have a negative impact on consumption and investment decisions by households and companies.

In the United States, political uncertainty in the run-up to the presidential elections and ongoing trade tensions could lead to a more pronounced reduction in corporate investment than previously assumed. This would have a particularly negative effect on the unit sales of the Daimler Trucks & Buses segment. The overall economic growth slowdown was to be more pronounced than previously expected, consumption by private households would also suffer significantly due to negative employment and income effects. This in turn could have a negative impact on the unit sales of Mercedes-Benz Cars & Vans.

In general, public and private debt remains high in many economies. In the event of a more pronounced economic downturn, this could limit the scope for governments to take fiscal countermeasures or lead to increased defaults by companies and households. This would lead to increased instability in the financial markets and also adversely affect overall economic demand, with negative effects on the unit sales of the Daimler Group's segments.

From an economic perspective, the high indebtedness of Chinese companies, especially state-owned enterprises, also represents a considerable risk. If the government's efforts to restrict credit growth in combination with the negative impact of US tariffs on imports from China 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 segment, for which China is now one of the biggest sales markets, the aforementioned risks could result in significant negative effects on unit sales.

The outbreak of the coronavirus may result in macroeconomic risks that could lead to significant reductions in economic growth in China, other Asian economies and also worldwide. Risks for the Daimler Group may not only affect the development of unit sales, but may also lead to significant adverse effects on production, the procurement market and the supply chain.

Another risk is that the pressure on the emerging markets could intensify further if underlying sentiment in the financial markets deteriorates significantly. In such a case, even more capital would flow out of the emerging markets. Growth in the emerging markets would then be significantly weaker and put pressure on global growth. Furthermore, changes in central-bank policy in the developed and emerging markets to support economic development (such as currency devaluation) entail a high risk. Although the risk of a debt crisis in the emerging markets – triggered by US interest-rate rises and the resulting higher interest burden due to the predominance of US dollar debt – has recently been reduced by the US Federal Reserve's shift to a looser monetary policy, it has not been fully resolved. Possible crises in individual countries would have a noticeable negative impact on sales prospects in those markets and possible also on conditions for the Group's local operations.

Although oil prices fell significantly last year, if political crises – especially in the Middle East – and ensuing temporary supply bottlenecks lead to a significant rise in oil prices that OPEC countries are unable to offset in the short term, inflation could rise significantly and adversely affect global growth. Moreover, an escalation of geopolitical conflicts in other regions of the world could also significantly slow down global economic growth.

### *Location and country-specific risks*

In conducting business around the world, Daimler is subject to risks that are inherent in operating in other countries and is therefore exposed to material location and country-specific risks.

In general, business operations in emerging markets involve a greater risk resulting from economic and political systems that typically are less developed, and likely to be less stable, than those of more advanced countries. Daimler is therefore exposed to a number of factors, over which the Group has little to no control and which may adversely affect the Group's business activities. These factors include, but are not limited to, the following: political, social, economic, financial or market-related instability or volatility; foreign currency control regulations and other regulations or the negative impacts related to foreign exchange rate volatility; restrictions on capital transfers; absence of independent and experienced judiciary and inability to enforce contracts; reimbursement rates and services covered by government reimbursement programs; trade restrictions and restrictions on repatriation of earnings.

The realization of any of these risks could have a material adverse effect on Daimler's business, cash flows, financial condition and results of operations.

### *General market risks*

The risks for the economic development of automotive markets are strongly affected by the cyclical situation of the global economy as described above. The assessment of market risks 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 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 on the development of unit sales are included in risk scenarios. Increasing customer demand for model series with lower profit margins can have a negative impact on the earnings of the segments concerned. Causes of declining vehicle sales may 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. Differences between the segments exist due to the partly varying regional focus of their activities.

Due to the partly difficult financial situation of some dealerships and vehicle importers, support actions might become necessary to ensure the performance of the business partners. Further risks result from the dependency on certain dealerships, so in certain circumstances, relationships with new business partners may have to be developed. The loss of important dealerships and vehicle importers can lead to customer demand not being fully served and lower unit sales. Risks of this kind exist for dealerships and vehicle importers of Mercedes-Benz Cars & Vans and Daimler Trucks & Buses.

The launch of new products by competitors, more aggressive pricing policies and poorer price enforcement in the aftersales business can lead to increasing competitive and price pressure in the automotive segments.

### *Risks relating to the leasing and sales-financing business*

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).

In connection with leasing agreements, risks arise if the market value of a leased vehicle at the end of the agreement term differs from the residual value originally calculated and forecasted at the time the agreement was concluded and used as a basis for the leasing installments. A residual-value risk arises if the expected market value of a vehicle at the end of the contract term is lower than the residual value calculated and forecasted when the contract was concluded. Particularly at Mercedes-Benz Cars & Vans and Daimler Mobility, risks therefore result from the development of the used car markets and thus from the residual values of the vehicles produced. Above all, the existing uncertainties in connection with diesel vehicles can have a negative impact on residual values. As part of the established residual-value management process, certain assumptions are made at local and corporate levels regarding the expected level of prices, based upon which the cars to be returned in the leasing business are evaluated. If changing market developments lead to a negative deviation from assumptions, there is a risk of lower residual values of used cars. This can adversely affect the proceeds from the sale of used cars.

In addition, a residual-value risk from non-Daimler vehicles exists for the Daimler Mobility companies that operate commercial fleet management and leasing management, because most of those vehicles are not covered by manufacturers' residual-value guarantees. The negative development of sale prices for used cars on stock can adversely affect earnings.

#### *Procurement market risks*

Procurement market risks arise for the automotive divisions in particular from fluctuations in prices of raw materials and energy. There are also risks of financial bottlenecks of suppliers, and of capacity bottlenecks caused by supplier delivery failures or by insufficient utilization of production capacities at suppliers. Potential claims from suppliers due to the premature termination of development and production agreements by the Daimler Group may also lead to decreased earnings.

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. For example, raw-material markets can be impacted by political crises and uncertainties – combined with possible supply bottlenecks – as well as volatile demand for specific raw materials. Potential tariff increases for certain raw materials as a result of increasing protectionist tendencies worldwide can have a negative impact on price developments. In general, the ability to pass on the higher costs of commodities and other materials in 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 margins on 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.

Due to the planned electrification of new model series and a shift in customer demand from diesel to gasoline engines, 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. If suppliers cannot cover their fixed costs, there is the risk that they may demand compensation payments. Necessary capacity expansion at suppliers' plants could also require cost-effective participation.

#### *Risks relating to the legal and political framework*

The automotive industry is subject to extensive governmental regulation worldwide. Risks from the legal and political framework have a considerable impact 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. Complying with these varied and often diverging regulations all over the world requires strenuous efforts on the part of the automotive industry. In the future, Daimler expects to spend an even larger proportion of its research and development budget to ensure compliance with these regulations.

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 emission levels, fuel economy and noise, as well as pollutants from the emissions caused by the production facilities. Non-compliance with regulations applicable in the various regions might result in significant penalties and reputational risks and might even mean that vehicles could not or could no longer be registered in the relevant markets. In addition, the risk exists that vehicles already in the markets will have to be rectified. The cost of compliance with these regulations is significant, especially for conventional engines, and Daimler expects a further increase in costs in this context.

Mercedes-Benz Cars & Vans faces 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 or cars with other types of electric drive. The ambitious statutory requirements will be difficult to fulfill in some countries. The market success of these drive systems is greatly influenced not only by customer acceptance but also by regional market conditions, like for example the battery-charging infrastructure and state support.

As the negative headlines on diesel engines and the implementation of driving bans on diesel vehicles unsettle customers, this can result in lasting shifts in the drive-system portfolio (fewer diesel and more gasoline engines). This would require additional cost-intensive development and production measures in order to meet the CO<sub>2</sub> fleet limits applicable as of 2020.

The EU Commission is still revising, and amending or supplementing, the framework conditions for the WLTP (Worldwide Harmonized Light Vehicles Test Procedure) measurement method, which has been applicable since September 2018. This may result in increased and additional WLTP testing and documentation costs.

Due to a procedural error in the legislation, the Court of the European Union has at first instance annulled parts of the RDE (Real Driving Emissions) legislation and has given the legislators 12 months from the date of the decision on the appeal to amend the contested parts of the regulation. If the appeal against the ruling is unsuccessful, the new regulation could pose significant risks to the eligibility of vehicles for registration, also of the Daimler Group. In the worst case, the new vehicles concerned, also of the Daimler Group, would no longer be allowed to be registered and operated throughout the EU.

Strict 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 statutory requirements in some countries. Above all this applies to the markets of Japan, the United States, China and Europe. The European Commission has developed a method for determining the CO<sub>2</sub> emissions of heavy commercial vehicles, named VECTO (Vehicle Energy Consumption calculation Tool), the application of which has been mandatory for the most important vehicle categories since January 1, 2019. The prescribed level of CO<sub>2</sub> reduction in Europe of 15% by 2025 and 30% by 2030, in each case compared to the new-vehicle fleet in the period of July 2019 to June 2020, cannot be achieved with conventional technology alone. Daimler Trucks & Buses will therefore have to apply the latest technologies in order to fulfill these requirements. Achieving the 2025 target will require significant shares of battery-electric trucks or other electrified drive systems in the actual market, which may only be achievable at higher costs.

The position of the Daimler Group in key foreign markets could also be affected by an increase in 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 those countries that participate in the free-trade agreements. In addition, if the content of the free-trade agreements currently used by Daimler is made significantly stricter, this could also significantly impair the position of the Daimler Group, as the Group could no longer benefit from those free trade agreements.

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. Furthermore, interruptions in the supply chain due to potential trade conflicts cannot be ruled out. This can lead to increased costs if production facilities have to be established or expanded or local purchasing has to be increased. 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 customs procedures. These measures generally exacerbate uncertainties in the planning process; they can also lead to lower unit sales if importing is made more difficult.

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. This development can have a dampening effect on the development of unit sales, especially in growth markets. Pressure to reduce personal transport is increasingly being applied in European cities through discussions of bans on vehicles entering or driving in inner cities, especially those with diesel engines. These developments may dampen the development of unit sales, especially in the growth markets. In European cities, discussions about driving bans are increasingly intensifying the pressure to reduce individual transport, especially for vehicles with diesel engines. The great challenge of the coming years will be to offer an appropriate range of drive systems and the right product portfolio in each market.

## **Company-specific Risks**

The following section describes the company-specific risks of the Daimler Group.

### *Production and technology risks*

Key success factors for achieving the desired level of prices for the products of the Daimler Group – and hence for the achievement of corporate targets – are brand image, design and quality, and thus the acceptance of products by customers, as well as technical features based on innovative research and development. Convincing solutions, which for example support accident-free driving or further improve the products' fuel consumption and emissions, such as hybrid or electric vehicles, are of key importance for safe and sustainable mobility. Innovations and technology opportunities for the progressive and future-oriented design of the product range flow into the strategic product planning of the automotive divisions. However, due to increasing technical complexity, the continually rising extent of requirements in terms of emissions, fuel consumption and safety, as well as meeting and steadily raising the Daimler Group's quality standards, product launches and manufacturing in the automotive divisions are also subject to production and technology risks.

In the context of product launches, 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, 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. For example, delays in the ramp-up phase of an innovation or during a product's lifecycle can lead to inefficiencies in the production process and as a consequence to a temporary reduction in production volumes. Late design changes in the development process, for example in connection with new regulatory requirements, as well as quality or availability problems of supplied vehicle components can have a negative impact on production

ramp-ups. 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 and possible technical limitations on battery lifecycles cannot be ruled out. Affected are those automotive segments which are currently launching a new product or have planned a related production ramp-up.

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. The production equipment is continuously maintained and modernized.

Capacity restrictions in the production of batteries, interruptions in the supply chain and possible interruptions in supply by energy providers can lead to bottlenecks, especially at Mercedes-Benz Cars & Vans. Restrictions on certain equipment components in new vehicle models and the lack of availability of vehicle parts at the right time also mean that vehicles cannot be handed over to customers as planned. The lack of availability and quality problems with certain vehicle parts can lead to production downtimes and cause costs.

Warranty and goodwill cases could arise in the Daimler Group if the quality of the products does not meet the requirements, regulations are not fully complied with, or support cannot be provided in the required form in connection with product problems and product care. Quality problems both with components in vehicles from external suppliers and in connection with technical innovations in vehicles may require adjustments that can lead to considerable expenses.

#### *Information technology risks*

The high penetration of information technology (IT) in all segments of the Group 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. The framework for IT security is based on international standards such as ISO/IEC 2700x and the NIST Cybersecurity Framework, and its protective measures also apply industry standards and best practice. 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. In particular, risks 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.

#### *Personnel risks*

The success of the Daimler Group is highly dependent on its employees and their expertise.

Competition for highly qualified staff and management is still very intense in the industry and the regions in which Daimler operates. Future success also depends on the extent to which the Daimler Group succeeds over the long term in recruiting, integrating and retaining specialist employees.

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.

Daimler Group counters economic, market and competitive fluctuations with the established time and flexibility instruments to enable Daimler 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 have concluded an agreement which includes a staff-reduction program. As this is based on an agreement that is voluntary for both parties, there is a risk that its implementation may not be able to take place to the full extent planned.

Risks exist in the context of negotiations on collective bargaining frameworks and the associated potential loss of production.

#### *Risks related to equity investments and cooperations*

Cooperation with partners in associated companies and joint ventures is of key importance to Daimler.

The Daimler Group generally participates in the risks of associated companies and joint ventures in line with its equity interest, and is also subject to share-price risks 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 for the segment to which it is allocated. Furthermore, the business activities of an associated company, joint venture or joint operation, or the disposal or acquisition of an interest in such an entity, can result in financial obligations or an additional financing requirement. Such risks also exist with investments in startups and in the context of the restructuring of companies in which a minority interest is held. Risks from associated companies and joint ventures exist at Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility, as well as at the associated companies and joint ventures directly allocated to the Group.

### **Financial Risks**

The following section deals with financial risks of the Daimler Group. Risks can have a negative effect on the profitability, cash flows and financial position of the Daimler Group.

Daimler is generally exposed to risks from changes in market prices such as currency exchange rates, interest rates, commodity prices and share prices. Market price changes can have a negative influence on the Group's profitability, cash flows and financial position.

In addition, the Group is exposed to credit-, country- and liquidity-related risks, risks of restricted access to capital markets and risks of early credit repayment requirements and risks from changes in credit ratings.

Further information on financial risks is provided in Note 33 (*Management of financial risks*) of the Notes to the Annual Consolidated Financial Statements 2019 of DAG, incorporated by reference into this Prospectus. Information on the Group's financial instruments is provided in note 32 (*Financial instruments*) of the notes to the Annual Consolidated Financial Statements 2019 of DAG, incorporated by reference into this Prospectus.

#### *Exchange rate risks*

The Daimler Group's global orientation means that its business operations and financial transactions are connected with risks 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 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, as 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. Exchange rate risks also exist in connection with the translation into euros of the net assets, revenues and expenses of the companies of the Group outside the euro zone (translation risk); these risks are not generally hedged.

#### *Interest rate risks*

Changes in interest rates can create risks 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. Term-congruent refinancing is generally undertaken for the financial services business. However, to a certain extent, the funding does not match in terms of maturities and interest rates, which gives rise to the risk of changes in interest rates.

#### *Commodity price risks*

As already described in the subsection "*Procurement market risks*", the Group's business operations are exposed to changes in the market prices of purchased parts and raw materials.

#### *Credit risks*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt in accordance with the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of 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. Credit risks also arise from the Group's liquid assets. Risks related to leasing and sales financing are addressed in the subsection entitled "*Industry and Business Risks – Risks relating to the leasing and sales-financing business*". Should defaults occur, this would adversely affect the Group's financial position, cash flows and profitability.

#### *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.

#### *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 Daimler's 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 Daimler from covering any liquidity requirements by means of borrowing in the capital markets.

### *Risks of early credit repayment obligations*

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

### *Risks 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 particularly changes in the discount rate may have a negative 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 developments, especially relating to equity prices and fixed-interest securities, reduce the carrying value of plan assets. A change in the composition of plan assets can also have a negative impact on the fair value of plan assets.

Further information on the pension plans and their risks is provided in Note 22 (*Pensions and similar obligations*) of the Notes to the Annual Consolidated Financial Statements 2019 of DAG, incorporated by reference into this Prospectus.

### *Risks from changes in credit ratings*

Daimler's creditworthiness is assessed by the rating agencies DBRS Limited, Fitch Ratings España S.A.U., Moody's Deutschland GmbH, Scope Ratings AG and S&P Global Ratings Europe Limited. Risks exist in connection with potential downgrades 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 DAG or notes to be issued by DAG or another Group company. A risk to the credit rating of the Daimler Group can also arise if the earnings and cash flows from the anticipated Group's growth cannot be realized.

## **Legal and Tax Risks**

The Group continues to be exposed to legal and tax risks.

### *Legal risks*

#### *Regulatory risks*

The automotive industry is subject to extensive governmental regulations worldwide. Laws in various jurisdictions regulate 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 significant, and in this context, Daimler expects a significant increase in such costs.

### *Risks from legal proceedings in general*

DAG and its subsidiaries are confronted with various legal proceedings, claims as well as government 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, warranty claims, environmental matters, antitrust matters (including actions for damages) as well as shareholder litigation. Product-related litigation involves claims alleging faults in vehicles, some of which have been made as class actions. If the outcome of such legal proceedings is detrimental to Daimler, 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 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 federal and state authorities and other institutions worldwide have inquired about and/or are/have been conducting investigations and/or administrative proceedings, and/or have issued administrative orders or in the case of the Stuttgart district attorney's office a fine notice. These particularly relate to test results, the emission control systems used in Mercedes-Benz diesel vehicles and/or Daimler's interaction with the relevant federal and state authorities as well as related legal issues and implications, including, but not limited to, under applicable environmental, criminal and antitrust laws. These authorities and institutions include, amongst others, the US Department of Justice (DOJ), which has requested that Daimler conducts an internal investigation, the US Environmental Protection Agency (EPA), the California Air Resources Board (CARB) and other US state authorities, the European Commission, the German Federal Cartel Office (*Bundeskartellamt*) as well as national antitrust authorities and other authorities of various foreign states as well as the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Motor Transport Authority ("**KBA**"). 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 (leniency application) with the European Commission some time ago. The Stuttgart district attorney's office is conducting criminal investigation proceedings against Daimler employees on the suspicion of fraud and criminal advertising, and, in May 2017, searched the premises of Daimler at several locations in Germany. In February 2019, the Stuttgart district attorney's office also initiated a formal investigation proceeding against DAG with respect to an administrative offense. In September 2019, the Stuttgart district attorney's office 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. Daimler continues to fully cooperate with the authorities and institutions. Irrespective of such cooperation, 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 the years 2018 and 2019, the KBA issued various administrative orders holding that certain calibrations of specified functionalities in certain Mercedes-Benz diesel vehicles are to be qualified as impermissible defeat devices and ordered subsequent auxiliary provisions for the respective EC type approvals in this respect, including stops of the first registration and mandatory recalls. Daimler filed timely objections against such administrative orders in order to have the open legal issues resolved, if necessary by a court of law. In the course of its regular market supervision, KBA is routinely conducting further reviews of Mercedes-Benz vehicles and is asking questions about technical elements of the vehicles. In light of the aforementioned administrative orders issued by KBA, it is likely that in the course of the ongoing and/or further investigations, KBA will issue additional administrative orders holding that other Mercedes-Benz diesel vehicles are also equipped with impermissible defeat devices. Daimler has (in view of KBA's interpretation

of the law as a precaution) 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. The new calibrations requested by KBA are being processed, and for a certain proportion of the vehicles, the relevant software has already been approved by 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 Daimler as a precautionary measure, also with regard to the used car, leasing and financing businesses. Daimler has initiated further investigations and otherwise continues to fully cooperate with the authorities and institutions.

In January 2019, another vehicle manufacturer reached civil settlements with US federal and state authorities, as well as with vehicle customers. Although the manufacturer did not admit liability, the authorities maintain the position that the manufacturer included undisclosed Auxiliary Emission Control Devices ("AECs") in its diesel vehicles, apparently including functionalities that are common in diesel vehicles, and that certain of these AECs are illegal defeat devices. As part of these settlements, the manufacturer has agreed to, among other things, pay civil penalties, undertake a recall of affected vehicles, provide extended warranties, undertake a nationwide mitigation project and make other payments. The manufacturer has furthermore agreed to provide payments to current and former diesel vehicle owners as part of a class action settlement.

In light of these matters and in light of the ongoing governmental information requests, inquiries, investigations, administrative orders and proceedings, as well as Daimler's own internal investigations, it is possible that, besides KBA, 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 Group are equipped with impermissible defeat devices and/or that certain functionalities and/or calibrations 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. Except for, in particular, the Stuttgart district attorney's office's administrative offense proceedings, the other inquiries, investigations, legal actions and proceedings as well as the replies to the governmental information requests, the objection proceedings against KBA's administrative orders and Daimler's internal investigations are still ongoing and open; hence, Daimler cannot predict the outcome at this time. Due to the outcome of the administrative offense proceedings by the Stuttgart district attorney's office against Daimler and the above as well as any potential other information requests, inquiries, investigations, administrative orders and proceedings, it is possible that Daimler will become subject to 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 investigations and/or administrative orders by these or other authorities 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 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 determinations or findings, even if such determinations or findings are not within the scope of such authority's responsibility or jurisdiction. Thus, a negative determination or finding in one proceeding, such as the fine notice issued by the Stuttgart district attorney's office, 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 as well as other unfavorable 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*

A consumer class-action lawsuit is pending in the United States in which it is alleged that DAG and MBUSA conspired with Robert Bosch LLC and Robert Bosch GmbH to deceive US regulators and consumers. A separate lawsuit was filed in January 2019 by the State of Arizona alleging that DAG and MBUSA deliberately deceived consumers in connection with the advertising of Mercedes-Benz diesel vehicles. Consumer class-action lawsuits containing similar allegations were filed against DAG and other companies of the Group in Canada in April 2016, and against DAG in Israel in February 2019. A similar class action was filed in the United States in July 2017, but in December 2017, the parties stipulated to dismiss that lawsuit without prejudice. It may be filed again under specific conditions.

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. A securities class action lawsuit is pending in the United States on behalf of investors in DAG American Depositary Receipts which alleges that the defendants made materially false and misleading statements about diesel emissions in Mercedes-Benz vehicles.

In Germany, a multitude of lawsuits by customers alleging claims under warranty and tort laws as well as lawsuits by investors alleging the violation of disclosure requirements are pending. In this context, motions to initiate a model proceeding in accordance with the Act on Model Proceedings in Capital Markets Disputes (*KapMuG*) have been filed by investors as well as by DAG. Currently, no model proceeding is pending.

If court proceedings have an unfavorable outcome for Daimler, this could result in significant damages and punitive damages payments, remedial works or other cost-intensive measures. Court proceedings can in part also have an adverse effect on the reputation of the Group.

Furthermore, Daimler's ability to defend itself in the court proceedings could be impaired by unfavorable findings, results or developments in any of the governmental or other court proceedings discussed above, in particular the fine notice issued by the Stuttgart district attorney's office.

Further information on legal proceedings is provided in Note 30 (*Legal proceedings*) of the Notes to the Annual Consolidated Financial Statements 2019 of DAG incorporated by reference in this Prospectus.]

#### *Risks from other legal proceedings*

Following the settlement decision by the European Commission adopted on July 19, 2016 concluding the trucks antitrust proceedings, DAG 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.

As legal proceedings are fraught with a large degree of uncertainty, it is possible that after their final resolution, some of the provisions Daimler has 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 Daimler's profitability and financial position

Further information on legal proceedings is provided in Note 30 (*Legal proceedings*) of the Notes to the Annual Consolidated Financial Statements 2019 of DAG incorporated by reference in this Prospectus.

#### *Tax risks*

DAG 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.

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.

### **Non-financial Risks**

As a company with worldwide activities, DAG is at the focus of public interest. The relevant stakeholders' perception is of crucial importance and can affect the reputation of the entire Daimler Group. A key role in the public's current perception is played by Daimler's approach to environmental, employee and social matters, fighting corruption and bribery, and respecting human rights and may lead to non financial-risks.

Risks arise above all in connection with the public debate about diesel vehicles and the related fundamental reconsideration of methods for measuring emissions. Due to the replacement of the NEDC (New European Driving Cycle) with the new measuring method WLTP (Worldwide Harmonized Light Vehicles Test Procedure), the fleet CO<sub>2</sub> average has worsened. In light of today's knowledge, this makes it more difficult to achieve the CO<sub>2</sub> targets as of 2020. Furthermore, there has been some pressure in the past two years on diesel technology, which is important for compliance with the challenging CO<sub>2</sub> targets in the EU, because of NO<sub>x</sub> levels exceeding the limits at some measuring stations in cities. The current public focus on vehicle emissions as well as possible certifications stops and recalls jeopardize the reputation of the automotive industry and in particular of the diesel engine, and could result in damage to Daimler's reputation. In general, legal risks – for example in connection with antitrust investigations – as well as possible legal and social violations by partners and suppliers can have a negative impact on the reputation of the entire Daimler Group.

### **Other Risks**

As well as the risk categories described above, unpredictable events such as natural disasters, political instability or terrorist attacks can disturb production and business processes. Disruptions of business processes can also occur in connection with projects as a result of system changes. In addition to the described risks, other risks can occur that adversely affect the public perception and therefore the reputation of the Daimler Group. Public interest is focused on Daimler's position with regard to individual issues in the fields of sustainability, integrity and social responsibility. Furthermore, customers, business partners and capital markets are interested in how the Group reacts to the technological challenges of the future, how it succeeds in offering up-to-date and technologically leading products in the markets, and how business operations are conducted under the given conditions.

New competitors in the IT sector for example and the Group's current strategy, among other things in connection with electric mobility, pose further challenges for the Daimler Group and are connected with risks.

Finally, there will be a negative effect from the continuing high advance expenditure for new products and technologies. In addition, there will be costs for Project Future for the implementation of the new Group structure.