



We act responsibly and sustainably

The Board of Management and the Supervisory Board of Daimler are committed to the principles of good corporate governance. All of our actions take place within the framework of responsible, transparent and sustainable corporate governance.

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Report of the Audit Committee

Dear Shareholders,

As Chairman of the Audit Committee, I am very pleased to report to you on the tasks and activities performed by that body in financial year 2016.

Responsibility

On the basis of applicable law, the German Corporate Governance Code and the Rules of Procedure of the Supervisory Board and its committees, the Audit Committee deals primarily with questions of accounting and financial reporting. In addition, it deals with the annual audit and reviews the qualifications and independence of the external auditors. Furthermore, it discusses the effectiveness and functional capabilities of the risk management system, the internal control system, the internal auditing system and the compliance management system. After the external auditors are elected by the Annual Shareholders' Meeting, the Audit Committee engages the external auditors to conduct the annual audit and the auditors' review of interim financial statements, determines the important audit issues and negotiates the audit fees with the external auditors.

Equal representation

Audit Committee Chairman Dr. Clemens Börsig and Joe Kaeser served as the shareholder representatives on the Audit Committee in financial year 2016. Both are independent and have expertise in the field of financial reporting, as well as special knowledge of and experience in the auditing of financial statements and the application of methods of internal control. During financial year 2016, the employees were represented on the Audit Committee by Michael Brecht as the Deputy Chairman of the Committee and by Dr. Sabine Maaßen. Dr. Sabine Maaßen resigned from her position as a member of the Supervisory Board of Daimler AG, effective June 30, 2016, and thus relinquished her membership in the Audit Committee as well. In a meeting held on June 17, 2016, the members of the Supervisory Board elected Ergun Lümali as an employee representative member of the Audit Committee, effective July 1, 2016.

Meetings and participants

The Audit Committee met six times in the financial year 2016. All of these meetings were also attended by the Chairman of the Supervisory Board, Dr. Manfred Bischoff, as a permanent guest. The meetings were also attended by the Chairman of the Board of Management, the members of the Board of Management responsible for Finance and Controlling and for Integrity and Legal Affairs, and the external auditors. The heads of specialist departments such as Accounting, Corporate Audit, Group Compliance and Legal, as well as other experts, were also present for the appropriate items of the agenda.

In addition, the Chairman of the Audit Committee held regular individual discussions, for example with the external auditors, the members of the Board of Management responsible for Finance and Controlling and for Integrity and Legal Affairs, and, if required, the heads of the specialist departments. Such individual discussions were mainly held to prepare for the next committee meetings.

Reporting to the Supervisory Board

The Chairman of the Audit Committee informed the Supervisory Board about the activities of the Committee and about the contents of its meetings and discussions in the following Supervisory Board meetings.

Topics in 2016

In a meeting held on February 3, 2016, the Audit Committee dealt with the preliminary figures of the annual financial statements and the annual consolidated financial statements for the year 2015, as well as with the proposal on the appropriation of profits made by the Board of Management. Following an in-depth review, the Audit Committee took positive note of the presented figures and determined that no objections could be made to their proposed publication. The Committee further recommended that the Supervisory Board, which met immediately thereafter, adopt the same view. The preliminary key figures and the proposal on the appropriation of profits were announced at the Annual Press Conference on February 4, 2016.

In another meeting on February 16, 2016, the Audit Committee dealt with the annual financial statements, the consolidated financial statements and the combined management report for Daimler AG and the Daimler Group for the financial year 2015, each of which had been issued with an unqualified auditor's opinion by the external auditors, as well as with the proposal on the appropriation of profits. At the meeting, the external auditors reported on the results of their audit and were available



Dr. Clemens Börsig, Chairman of the Audit Committee

to answer supplementary questions and to provide additional information. The audit reports on the annual company and consolidated financial statements and on the internal control system (ICS), the report on the risk management system for the year 2015, the Annual Report 2015 and important issues related to financial reporting were discussed with the external auditors. Following an in-depth review and discussion, the Audit Committee recommended that the Supervisory Board approve the financial statements and the combined management report, and on this basis adopt the recommendation of the Board of Management to pay a dividend of €3.25 per share entitled to a dividend. Furthermore, the Audit Committee approved the Report of the Audit Committee for the financial year 2015.

Also in this meeting, the Audit Committee discussed the report on the total fees paid to the external auditors in the financial year 2015 for auditing and non-auditing services. The Audit Committee also decided to recommend to the Supervisory Board, and subsequently to the Annual Shareholders' Meeting, that KPMG be engaged to conduct the annual external audit and the external auditors' review of interim financial reports for the financial year 2016. Among other things, the Audit Committee based this recommendation on the quality of the annual audit and the results of the independence review, for which no indications of partiality or a threat to independence could be found. Subject to the election of the proposed external auditors by the Annual Shareholders' Meeting, the Committee discussed the proposal for the fees to be agreed upon with the external auditors for the financial year 2016. Finally, within the framework of its responsibility, the Audit Committee dealt with the draft agenda for the 2016 Annual Shareholders' Meeting and the annual audit plan for 2016 of the Internal Auditing department.

In the meetings during 2016 related to the quarterly results, the Audit Committee discussed the interim financial reports before their publication with the Board of Management and with the external auditors engaged to carry out the auditors' review of interim financial statements. In addition, the Committee received reports from the Group Compliance, Legal and Corporate Audit departments. In this connection, the Audit Committee dealt, for example, with the current status of pending legal proceedings. In addition, the Audit Committee dealt with notifications concerning possible violations of rules submitted by employees and third parties to the Group's own whistleblower system BPO (Business Practices Office).

On April 21, 2016, the Audit Committee approved the fees agreed upon with the external auditors for the financial year 2016 after the Annual Shareholders' Meeting made its decision on April 6, 2016 regarding the election of the proposed external auditors for the annual financial statements and the consolidated financial statements.

In its meeting on June 14, 2016, the Audit Committee discussed the Group's risk management system and dealt in particular with its changes and further development. It also discussed the methods and processes of, and possible changes to, the internal control system, which along with accounting also encompasses the internal auditing function and the compliance management system. Furthermore, the Committee received a report on the non-auditing services provided by the external auditors. In this meeting, the Committee also defined key audit issues for the external audit of the reporting period and the framework of approval for engaging the external auditors to provide non-audit services. In this connection, the Committee extensively addressed the EU audit reforms and the effect they will have on Daimler. This meeting was also used to discuss the results of the internal quality analysis of the external audit for the financial year 2015.

Also in the meeting on June 14, 2016, the Audit Committee dealt in depth with new developments in accounting and financial reporting, such as the new financial reporting standards IFRS 9 and 15, and other audit-relevant areas such as tax law. Furthermore, the Committee was informed in detail about the Group Legal System and Group Legal Risk Reporting. Finally, the Committee was informed in detail about the currency hedging and interest-rate management system utilized by the Group's Treasury department and also discussed with the Board of Management the annual report produced by the Group's Data Protection Officer. The Audit Committee then drew up a recommendation for action for the Supervisory Board that calls for the Group's shares in Renault and Nissan to be contributed into the Daimler AG pension fund in Germany.

The meeting of the Audit Committee on July 20, 2016 took place within the framework of the Supervisory Board meeting that was held abroad in Portland, Oregon in the United States. In this meeting, the Committee primarily dealt with the results of the second quarter of 2016 and with the risk report. In this connection, the members of the Committee discussed production and technology risks, the effects of the conclusion of the European Commission's antitrust proceedings against Daimler and other truck manufacturers, and the current status of the internal examination of the emissions certification and approval process for Daimler vehicles in the United States that was requested by the US Department of Justice.

In a meeting held on October 20, 2016, the Audit Committee dealt with, among other things, audit reform legislation once again, which has led to changes in the requirements that members of the Committee have to meet. The new legal stipulations require the Audit Committee to more closely monitor the external auditors' independence as defined by the new and more restrictive legislation. This affects the monitoring of the process for selecting the external auditors (external rotation), the requirements for approving permitted non-auditing services, and measures to ensure compliance with the fee ceiling for non-auditing services of 70% of the average external auditors' fee paid throughout the Group. In this context, the Audit Committee discussed proposals for altering its Rules of Procedure and drew up a corresponding recommendation for action for the Supervisory Board. The Audit Committee also dealt with the strategy and content of insurance programs around the world that are used to protect the company and its employees.

Company and consolidated financial statements 2016

In a meeting held on February 1, 2017, the Audit Committee dealt with the preliminary figures of the annual company and consolidated financial statements for the year 2016, as well as with the proposal on the appropriation of profits made by the Board of Management. Following an in-depth review, the Audit Committee took positive note of the presented figures and determined that no objections could be made to their proposed publication. The Committee further recommended that the Supervisory Board, which met immediately thereafter, adopt the same view. The preliminary key figures and the proposal on the appropriation of profits were announced at the Annual Press Conference on February 2, 2017.

In another meeting on February 10, 2017, the Audit Committee reviewed and discussed in detail the annual financial statements, the consolidated financial statements and the combined management report for Daimler AG and the Daimler Group for the financial year 2016, each of which had been issued with an unqualified auditor's opinion by the external auditors, as well as the proposal on the appropriation of profits. At the meeting, the external auditors reported on the results of their audit and were available to answer supplementary questions and to provide additional information. The audit reports on the company and consolidated financial statements and on the internal control system (ICS), the report on the risk management system for the year 2016, the Annual Report 2016 and important issues related to financial reporting were discussed with the external auditors. Following an in-depth review and discussion, the Audit Committee recommended that the Supervisory Board approve the financial statements and the combined management report, and on this basis adopt the recommendation of the Board of Management to pay a dividend of €3.25 per share entitled to a dividend. Furthermore, the Audit Committee approved the Report of the Audit Committee for the financial year 2016.

Efficiency review

As in previous years, the Audit Committee once again conducted a self-evaluation of its own activities in 2016 on the basis of an extensive company-specific questionnaire. The very positive results of this efficiency review were presented and discussed in the meeting in mid-February 2017. This did not result in any need for action with regard to the Committee's tasks, or with regard to the content, frequency or procedure of its meetings.

Stuttgart, February 2017

The Audit Committee



Dr. Clemens Börsig
Chairman

Declaration on Corporate Governance, Corporate Governance Report

The declaration on corporate governance pursuant to Section 289a and Section 315 Subsection 5 of the German Commercial Code (HGB) is part of the combined management report for Daimler AG and the Daimler Group. The following statements thus apply to Daimler AG and the Daimler Group insofar as not otherwise stated. The declaration on corporate governance, which is combined with the corporate governance report, can also be viewed on the Internet at daimler.com/corpgov_e. Pursuant to Section 317 Subsection 2 Sentence 4 of the German Commercial Code (HGB), the contents of the declaration pursuant to Section 289a and Section 315 Subsection 5 of the HGB are not included in the audit carried out by the external auditors.

Declaration by the Board of Management and the Supervisory Board of Daimler AG pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the German Corporate Governance Code

Daimler AG satisfies the recommendations of the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the German Federal Gazette on June 12, 2015 in the Code version dated May 5, 2015, with the exception of Clause 3.8 Paragraph 3 (D&O insurance deductible for the Supervisory Board) and one deviation from Clause 5.4.1 Paragraph 2 (Specific objectives for the composition of the Supervisory Board), which was declared as a precautionary measure, and will continue to observe the recommendations with the aforesaid deviations. Since the issuance of the last compliance declaration in December 2015, Daimler AG has observed the recommendations of the German Corporate Governance Code in the version dated May 5, 2015, published on June 12, 2015, with the aforementioned exceptions.

D&O insurance deductible for the Supervisory Board (Clause 3.8, Paragraph 3)

As in previous years, the Directors' & Officers' liability insurance (D&O insurance) also contains a provision for a deductible for the members of the Supervisory Board, which is appropriate in the view of Daimler AG. However, this deductible does not correspond to the legally required deductible for members of the Board of Management in the amount of at least 10% of the damage up to at least one and a half times the fixed annual remuneration. Since the remuneration structure of the Supervisory Board is limited to fixed remuneration without performance bonus components, setting a deductible for Supervisory Board members in the amount of 1.5 times the fixed annual remuneration would have a disproportionate economic impact when compared with the members of the Board of Management, whose compensation consists of fixed and performance bonus components.

Specific objectives for the composition of the Supervisory Board (Clause 5.4.1 Paragraph 2)

The Supervisory Board has limited its target objective for its composition regarding the number of independent members of the Supervisory Board, in consideration of potential conflicts of interest, to the appointments for the shareholders' side, in the light of the German Codetermination Act and due to the lack of influence on the appointments for the employee side.

Stuttgart, December 2016

For the Supervisory Board
Dr. Manfred Bischoff
Chairman

For the Board of Management
Dr. Dieter Zetsche
Chairman

This declaration and previous, no longer applicable, declarations of compliance from the past five years are also available at our website at daimler.com/dai/gcgc.

The main principles applied in our corporate governance

German Corporate Governance Code

With the exceptions disclosed and justified in the declaration of compliance, Daimler AG has followed and continues to follow the recommendations of the German Corporate Governance Code beyond the legal requirements of German securities, code-termination and capital market legislation. Daimler AG has followed and continues to follow the suggestions of the Code with just one exception: Deviating from the suggestion in Clause 2.3.3, which stipulates that companies should enable shareholders to view the Annual Shareholders' Meeting with modern communications media such as the Internet, the Annual Shareholders' Meeting is not transmitted in its entirety on the Internet, but only until the end of the report by the Board of Management, in order to protect the character of the Annual Shareholders' Meeting as a meeting attended by our shareholders in person. An additional factor is that continuing the broadcast after that point, in particular broadcasting comments made by individual shareholders, could impair the discussion between shareholders and management.

The principles guiding our conduct

Our business conduct is based on Group-wide standards that go beyond the requirements of relevant legislation and the German Corporate Governance Code. These standards are based on the four company values integrity, respect, passion and discipline. If we are to achieve viable and thus sustainable business success on this basis, our activities must also be in harmony with the environment and society. This is in fact the only way to ensure that we as one of the world's leading automakers can remain a leader in sustainability as well. We have defined the most important principles in our Integrity Code, which serves as a frame of reference for compliant and ethical conduct in everyday activities for all employees at Daimler AG and the Group.

Integrity Code

Our Integrity Code is based on a shared understanding of values, which we developed together with Daimler employees. The Code defines our principles of behavior. This applies to interpersonal conduct within the company as well as conduct toward customers and business partners. Fairness, responsibility and compliance with laws are among the key principles in this context. In addition to general principles of behavior, the Code includes requirements and regulations concerning the protection of human rights and the handling of conflicts of interest. It also prohibits all forms of corruption. The Integrity Code is an integral part of every employment contract and applies to all employees at Daimler AG and the Group. The Integrity Code is available on the Internet at daimler.com/dai/caag.

We have also agreed on "Principles of Social Responsibility" with the World Employee Committee. They are binding for Daimler AG and the Group as a whole. In the "Principles of Social Responsibility," Daimler commits itself to the principles of the UN Global Compact and thus to internationally recognized human and workers' rights, such as the prohibition of child labor and forced labor, as well as freedom of association and sustainable protection of the environment. Daimler also commits itself to guaranteeing equal opportunities and adhering to the principle of "equal pay for equal work."

Expectations for our business partners

We also require our business partners to adhere to compliance stipulations because we regard our business partners' integrity and behavior in conformity with regulations as an indispensable prerequisite for trusting cooperation. When selecting our direct business partners, we therefore ensure that they comply with the law and follow ethical principles. For the expectations we place on our business partners, see also daimler.com/sus/obr.

Risk management at the Group

Daimler has a risk management system commensurate with its size and position as a company with global operations. [pages 158 ff](#) The risk management system is one component of the overall planning, controlling and reporting process. Its goal is to enable the company's management to recognize significant risks at an early stage and to initiate appropriate countermeasures in a timely manner. At least once a year, the Audit Committee discusses the effectiveness and functionality of the risk management system with the Board of Management. The Chairman of the Audit Committee reports to the Supervisory Board on the committees' work at the latest in the meeting of the Supervisory Board following each committee meeting. The Supervisory Board also deals with the risk management system with regard to the approval of the operational planning and the audit of the company and consolidated financial statements. In addition, the Board of Management regularly informs the Audit Committee and the Supervisory Board of the most important risks facing the company and the Group as a whole. The Chairman of the Supervisory Board has regular contacts between Supervisory Board meetings with the Board of Management, and in particular with the Chairman of the Board of Management, to discuss not only the Group's strategy and business development, but also the issue of risk management. The Internal Auditing department monitors adherence to the legal framework and to Group standards by means of targeted audits and initiates appropriate actions as required.

Accounting policies

The consolidated financial statements of the Daimler Group are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the supplementary standards to be applied according to Section 315a Subsection 1 of the German Commercial Code (HGB). Details of the IFRS are provided in this Annual Report in the Consolidated Financial Statements. [See Note 1 of the Notes to the Consolidated Financial Statements.](#) The annual financial statements of Daimler AG, which is the parent company, are prepared in accordance with the accounting standards of the German Commercial Code (HGB). Both sets of financial statements are audited by a firm of accountants elected by the Annual Shareholders' Meeting to conduct the external audit.

Interim reports for the Daimler Group are prepared in accordance with IFRS for interim reporting, as adopted by the European Union, as well as with the applicable provisions of the German Securities Trading Act (WpHG). Interim financial reports are reviewed by the external auditors elected by the Annual Shareholders' Meeting.

Composition and mode of operation of the Board of Management and the Supervisory Board [D.01](#)

Daimler AG is obliged by the German Stock Corporation Act (AktG) to apply a dual management system featuring strict personal and functional separation between the Board of Management and the Supervisory Board (two-tier board). Accordingly, the Board of Management manages the company while the Supervisory Board monitors and advises the Board of Management.

Board of Management

In accordance with the Articles of Incorporation of Daimler AG, the Board of Management has at least two members. The precise number of Board of Management members is determined by the Supervisory Board. The Board of Management had eight members on December 31, 2016. In accordance with the German law requiring women and men to be equally represented in executive positions, the Supervisory Board has defined a target for the proportion of women on the Board of Management as well as a deadline when this target must be met. The details are described in a separate section:

[pages 214 f.](#)

Information on the areas of responsibility and curricula vitae of the Board of Management members are posted on our website at daimler.com/dai/bom. The members of the Board of Management and their areas of responsibility are also listed on [pages 64 f.](#) of this Annual Report. No member of the Board of Management is a member of more than three supervisory boards of listed companies outside the Daimler Group or of similar boards or committees at companies outside the Daimler Group that have comparable requirements.

The Board of Management manages Daimler AG and the Daimler Group. With the consent of the Supervisory Board, the Board of Management determines the Group's strategic focus, defines the corporate goals, and makes decisions concerning operational planning issues. The members of the Board of Management must represent the interests of the Company and share responsibility for managing the Group's entire business.



Irrespective of this overall responsibility, the individual members of the Board of Management manage their allocated areas on their own responsibility and within the framework of the instructions approved by the entire Board of Management. Affairs of fundamental or essential importance as well as issues that affect the areas of responsibility of several Board of Management members are dealt with by the Board as a whole, which must approve all related decisions. The Chairman of the Board of Management coordinates the work of the Board of Management.

The Board of Management prepares the consolidated interim reports, the annual company financial statements of Daimler AG, the annual consolidated financial statements, and the combined management report of the Company and the Group. It ensures that the provisions of applicable law, official regulations and the Group's internal guidelines are adhered to, and works to make sure that the companies of the Group comply with those rules and regulations. The tasks of the Board of Management also include establishing and monitoring an appropriate and efficient risk management system.

For certain types of transaction of fundamental importance defined by the Supervisory Board, the Board of Management requires the prior consent of the Supervisory Board. At regular intervals, the Board of Management reports to the Supervisory Board on corporate strategy, corporate planning, profitability, business development and the situation of the Group, as well as on the internal control system, the risk management system and the compliance management system. The Supervisory Board has specified the information and reporting duties of the Board of Management.

The Board of Management has also given itself a set of rules of procedure, which can be seen on our website at [daimler.com/dai/rop](https://www.daimler.com/dai/rop). Those rules describe, for example, the procedure to be observed when passing resolutions and ways to avoid conflicts of interest.

The Board of Management has not formed any committees.

The Board of Management has committed to diversity management as a strategic success factor.

The targeted advancement of women had been a key area of action of Daimler's diversity management even before Germany's law on the equal participation of women and men in executive positions came into force. Among other things, the Company continues to promote this goal with flexible working-time arrangements, company-owned daycare centers and special mentoring programs. To meet the new legal requirements, the Board of Management has defined targets and deadlines for the proportion of women at the two management levels below the Board of Management. The details are described in a separate section. Independently of the legal requirements, Daimler continues to affirm the goal it already set itself in 2006 of increasing the proportion of women in executive positions at the Group to 20% by 2020. At the end of 2016, this proportion amounted to 16.7% (2015: 15.4%).

When making appointments to executive positions at the Group, the Board of Management also gives due consideration to the issue of diversity with regard to age and internationality. The management of teams with a varied makeup requires a conscious approach to the teams' inherent diversity. A key element of our approach here is therefore to make managers more aware of the importance of diversity. For this purpose, we also use mentoring programs, communication activities, conferences, workshops and e-learning tools. By continually addressing diversity management issues, we help to further develop our corporate culture.

Supervisory Board

In accordance with the German Codetermination Act (MitbestG), the Supervisory Board of Daimler AG comprises 20 members. Half of them are elected by the shareholders at the Annual Shareholders' Meeting. The other half comprises members who are elected by the Company's employees who work in Germany. The members representing the shareholders and the members representing the employees are equally obliged by law to act in the Company's best interests.

Information on the individual members of the Supervisory Board is available on the Internet at [daimler.com/supervisoryboard](https://www.daimler.com/supervisoryboard) and on [pages 72 f](#) of this Annual Report.

The Supervisory Board is to be composed so that its members together are knowledgeable about the business sector in which the Company operates and also dispose of the knowledge, skills and specialist experience that are required for the proper execution of their tasks. Proposals by the Supervisory Board of candidates for election by the Shareholders' Meeting as members representing the shareholders of Daimler AG, for which the Nomination Committee makes recommendations, take diversity into account. They also take into consideration not only the requirements of applicable law, the Articles of Incorporation and the German Corporate Governance Code, but also a list of criteria of qualifications and experience. They include, for example, market knowledge in the regions important to Daimler, expertise in the management of technologies and experience in certain management functions. Other important conditions for productive work in the Supervisory Board and for being able to properly supervise and advise the Board of Management are, in the view of the Supervisory Board, the members' personality and integrity as well as individual diversity with regard to age, internationality, gender and other personal characteristics.

In addition to Germany's legal requirements for equal participation by women and men in executive positions, the Supervisory Board has also taken the recommendations of the German Corporate Governance Code into account with regard to the Board's composition and has therefore set itself the following goals:

- In order to ensure sufficient internationality, for example by means of many years of international experience, the Supervisory Board has set a target of a proportion of at least 30% of international members representing the shareholders, and the resulting proportion of the entire Supervisory Board of at least 15%. Irrespective of the many years of international experience of a large majority of members of the Supervisory Board, this target is currently significantly overachieved due to the international origins of Dr. Paul Achleitner, Sari Baldauf, Petraea Heynike and Andrea Jung on the shareholders' side (40%) and Valter Sanches on the employees' side, with 25% for the entire Supervisory Board.
- At least half of the members of the Supervisory Board representing the shareholders should have
 - neither an advisory nor a board function for a customer, supplier, creditor, or other third party nor
 - a business or personal relationship to the company or its boards
 whose specific details could cause a conflict of interests.

In the period between March 11, 2016 and July 4, 2016, Dr. Bernd Bohr served as Chairman of the Supervisory Board of Knorr Bremsen AG. During this time, the Supervisory Board of Daimler AG addressed no issues that could be construed as constituting a conflict of interest in this situation.

As described in the report of the Supervisory Board on [pages 66 ff](#) of this Annual Report, there was one isolated individual case in a particular situation during the reporting period where there might have been the appearance of a potential conflict of interest during a specific vote. A second case involved three Supervisory Board members in relation to the presentation of a Board of Management report. As a highly precautionary measure, the Supervisory Board members in question in these cases refrained from taking part in the discussions and voting process – or being present during the presentation of the report – regarding the issue that might have led to a conflict of interest.

In the case of at least half of the shareholder representatives on the Supervisory Board, there were no instances of a potential conflict of interest during the reporting period. No actual instances of conflicts of interest were reported during the reporting period.

- In order to ensure the independent advice and supervision of the Board of Management by the Supervisory Board, the rules of procedure of the Supervisory Board stipulate that more than half of the members of the Supervisory Board representing the shareholders are to be independent as defined by the German Corporate Governance Code and that no person may be a member of the Supervisory Board who is a member of a board of, or advises, a significant competitor of the Daimler Group. In the view of the Supervisory Board, there are at present no indications for any of the members of the Supervisory Board representing the shareholders that relevant relationships or circumstances exist, in particular with the Company, members of the Board of Management or other Supervisory Board members, that could be construed as a true and permanent conflict of interest that would compromise their independence. No member of the Supervisory Board is a member of a board of, or advises, a significant competitor.
- The rules of procedure of the Supervisory Board further stipulate that candidates for election as members of the Supervisory Board who are to hold the position for a full period of office should generally not be over the age of 72 at the time of their election. In specifying this age limit, the Supervisory Board has intentionally refrained from stipulating a strict upper age limit and instead decided in favor of a flexible general limit that ensures each individual case is appropriately assessed, the range of potential Supervisory Board candidates is sufficiently broad and members can be reelected. After careful consideration and proper assessment, the Supervisory Board made the decision in October 2015 to propose to the Annual Shareholders' Meeting in 2016 that Dr. Manfred Bischoff be reelected as a shareholder representative on the Supervisory Board. All other members of the Supervisory Board and the candidates to be proposed for election at the 2017 Annual Shareholders' Meeting, Dr. Clemens Börsig and Bader Mohammad Al Saad, had not or will have not reached the age limit at the time of their election.
- The rules of procedure of the Supervisory Board also define a general time limit for Supervisory Board membership. As a result, only candidates who have not yet been members of the Supervisory Board for three full terms of office at the time of their election should generally be nominated for membership of the Supervisory Board for a full term of office. This general length of service on the Supervisory Board had not been exceeded by Dr. Manfred Bischoff and Petraea Heynike, who were nominated for reelection at the Annual Shareholders' Meeting in 2016. The same applies to Dr. Clemens Börsig, whose nomination for reelection to the Supervisory Board will be submitted to the Annual Shareholders' Meeting in 2017.

In accordance with another recommendation of the Code, the Supervisory Board made sure when it submitted its nominations to the Annual Shareholders' Meeting in 2016 and 2017 that the candidates in question would be able to continue to devote the time required for their Supervisory Board activities.

The Chairman of the Supervisory Board, Dr. Manfred Bischoff, is a former member of the Board of Management. One member of the Supervisory Board is a member of the board of management of a listed company. Including his membership of that Supervisory Board of Daimler AG, he is a member of no more than three supervisory boards of listed companies or similar company boards or committees at other companies with comparable requirements that are not part of the Group. The members of the Supervisory Board attend on their own responsibility courses of training and further training that might be necessary for the performance of their tasks and are supported by the Company in doing so. Such courses may address corporate governance, changes brought about by new legislation, or the launch of new products and pioneering technologies, for example. New members of the Supervisory Board participate in an "Onboarding" program that offers them the opportunity to exchange views with members of the Board of Management and other executives on current issues related to the various areas of responsibility of the Board of Management, and thus obtain an overview of important topics at the Company.

The Supervisory Board monitors and advises the Board of Management with regard to its management of the Company. At regular intervals, the Board of Management reports to the Supervisory Board on corporate strategy, corporate planning, revenue development, profitability, business development and the situation of the Group, as well as on the internal control system, the risk management system, and the compliance management system. The Supervisory Board has retained the right of approval for transactions of fundamental importance. Furthermore, the Supervisory Board has specified the information and reporting duties of the Board of Management to the Supervisory Board, to the Audit Committee and – between the meetings of the Supervisory Board – to the Chairman of the Supervisory Board.

The Supervisory Board's duties include appointing and recalling the members of the Board of Management. Initial appointments are usually made for a period of three years. In connection with the composition of the Board of Management, the Supervisory Board pays attention not only to the members' appropriate specialist qualifications, with due consideration of the Group's international operations, but also to diversity. This applies in particular to age, nationality and other personal characteristics.

In accordance with the German law requiring women and men to be equally represented in executive positions, the Supervisory Board has defined a target for the proportion of women on the Board of Management as well as a deadline when this target must be met. The details are described in a separate section.

The Supervisory Board decides on the system of remuneration for the Board of Management, reviews it regularly, and determines the individual remuneration of each member of the Board of Management with consideration of the ratio of Board of Management remuneration to the remuneration of the senior executives and the workforce as a whole, as well as with regard to development over time. For this comparison, the Supervisory Board has defined the senior executives by applying Daimler's internal terminology for the hierarchical levels and has defined the workforce of Daimler AG in Germany as the relevant workforce. The Supervisory Board has set upper limits for the individual Board of Management remuneration in total and with regard to its variable components. Further information on Board of Management remuneration can be found in the Remuneration Report of this Annual Report [pages 142 ff.](#)

The Supervisory Board reviews the annual financial statements, the annual consolidated financial statements and the combined management report of the Company and the Group, as well as the proposal for the appropriation of distributable profits. Following discussions with the external auditors and taking into consideration the audit reports of the external auditors and the results of the review by the Audit Committee, the Supervisory Board states whether, after the final results of its own review, any objections are to be raised. If that is not the case, the Supervisory Board approves the financial statements and the combined management report. Upon being approved, the annual financial statements are adopted. The Supervisory Board reports to the Annual Shareholders' Meeting on the results of its own review and on the manner and scope of its supervision of the Board of Management during the previous financial year. The Report of the Supervisory Board for the year 2016 is available on [pages 66 ff](#) of this Annual Report and on the Internet at daimler.com/supervisoryboard.

The Supervisory Board has given itself a set of rules of procedure, which regulate not only its duties and responsibilities and the personal requirements placed upon its members, but above all the convening and preparation of its meetings and the procedure of passing resolutions. The rules of procedure of the Supervisory Board can be viewed on our website at daimler.com/dai/rop.

Meetings of the Supervisory Board are regularly prepared in separate discussions of the members representing the employees and of the members representing the shareholders with the members of the Board of Management. Each Supervisory Board meeting includes an executive session for discussions of the Supervisory Board in the absence of the members of the Board of Management. The Supervisory Board members can also take part in the meetings by means of conference calls or video conferences. However, this is generally not the case.

Composition and mode of operation of the committees of the Supervisory Board

The Supervisory Board has formed four committees, which perform to the extent legally permissible the tasks assigned to them in the name of and on behalf of the entire Supervisory Board. The committee chairpersons report to the entire Supervisory Board on the committees' work at the latest in the meeting of the Supervisory Board following each committee meeting. The Supervisory Board has issued rules of procedure for each of its committees. Those rules of procedure can be viewed on our website at daimler.com/dai/rop. Information on the current composition of these committees can be viewed at daimler.com/dai/sbc and is also available on [page 73](#) of this Annual Report.

Presidential Committee

The Presidential Committee is composed of the Chairman of the Supervisory Board, his Deputy and two other members, who are elected by a majority of the votes cast on the relevant resolution of the Supervisory Board.

The Presidential Committee makes recommendations to the Supervisory Board on the appointment of members of the Board of Management, whereby it especially takes into account the requirements of the position to be filled as well as the Supervisory Board's target for the proportion of women on the Board of Management. It submits proposals to the Supervisory Board on the design of the remuneration system for the Board of Management and on the appropriate total individual remuneration of its members. In this context, it follows the relevant recommendations of the German Corporate Governance Code. The Presidential Committee is also responsible for the Board of Management members' contractual affairs. In addition, it decides on the granting of approval for sideline activities of the members of the Board of Management, reports to the Supervisory Board regularly and without delay on consents it has issued, and once a year submits to the Supervisory Board for its approval a complete list of the sideline activities of each member of the Board of Management.

In addition, the Presidential Committee decides on questions of corporate governance, on which it also makes recommendations to the Supervisory Board. It supports and advises the Chairman of the Supervisory Board and his Deputy, and prepares the meetings of the Supervisory Board within the limits of its responsibilities.

Nomination Committee

The Nomination Committee is composed of at least three members, who are elected by a majority of the votes cast by the members of the Supervisory Board representing the shareholders. It is the only Supervisory Board Committee consisting solely of members representing the shareholders and makes recommendations to the Supervisory Board concerning persons to be proposed for election as members of the Supervisory Board representing the shareholders at the Annual Shareholders' Meeting. In doing so, the Nomination Committee takes into consideration the requirements of the German law regulating equal participation of women and men in executive positions, the German Corporate Governance Code and the rules of procedure of the Supervisory Board, as well as the specific goals that the Supervisory Board has set for its own composition. Furthermore, it defines the requirements for each specific position to be occupied.

Audit Committee

The Audit Committee is composed of four members, who are elected by a majority of the votes cast on the relevant resolution of the Supervisory Board. The Chairman of the Supervisory Board is not simultaneously the Chairman of the Audit Committee.

Both the Chairman of the Audit Committee, Dr. Clemens Börsig, and the other shareholder representative on the Audit Committee, Joe Kaeser, fulfill the criteria for independence and have expertise in the field of financial reporting, as well as special knowledge and experience with regard to auditing and methods of internal control. Due to his work at Robert Bosch GmbH and his longstanding membership of the Supervisory Board of Daimler AG, Dr. Börsig is furthermore very familiar with the automotive industry.

The Audit Committee deals with the supervision of the accounting process and the annual external audit. At least once a year, it discusses with the Board of Management the effectiveness and functionality of the risk management system, the internal control and auditing system and the compliance management system. It regularly receives reports on the work of the Internal Auditing department and the Compliance Organization. At least four times a year, the Audit Committee receives a report from the whistleblower system BPO (Business Practices Office) on complaints and information about any breaches of regulations or guidelines by high-level executives. It regularly receives information about the handling of these complaints and notifications.

The Audit Committee discusses with the Board of Management the interim reports before they are published. On the basis of the report of the external auditors, the Audit Committee reviews the annual company financial statements and the annual consolidated financial statements, as well as the combined management report of the Company and the Group, and discusses them with the external auditors. Since 2014, the responsible auditor at KPMG AG Wirtschaftsprüfungsgesellschaft, the company of auditors commissioned to carry out the external audit 2016, has been Dr. Axel Thümler. KPMG AG Wirtschaftsprüfungsgesellschaft has been conducting the audit of the annual company financial statements and the annual consolidated financial statements of Daimler AG since the 1998 financial year. The Audit Committee makes a proposal to the Supervisory Board on the adoption of the annual company financial statements of Daimler AG, on the approval of the annual consolidated financial statements, and on the appropriation of profits. The Committee also makes recommendations for the proposal on the election of external auditors, assesses those auditors' suitability, qualifications and independence, and, after the external auditors are elected by the Annual Shareholders' Meeting, it engages them to conduct the annual audit of the company and consolidated financial statements and to review the interim reports, negotiates an audit fee and determines the focus of the annual audit. The external auditors report to the Audit Committee on all accounting matters that might be regarded as critical and on any material weaknesses of the internal control and risk management system with regard to accounting that might be discovered during the audit.

Finally, the Audit Committee approves permitted services that are not directly related to the annual audit and which are provided by the firm of external auditors or its affiliates to Daimler AG or to companies of the Daimler Group.

Mediation Committee

The Mediation Committee is composed of the Chairman of the Supervisory Board and his Deputy, as well as one member of the Supervisory Board representing the employees and one member of the Supervisory Board representing the shareholders, each elected with a majority of the votes cast. It is formed solely to perform the functions laid down in Section 31 Subsection 3 of the German Codetermination Act (MitbestG). Accordingly, the Mediation Committee has the task of making proposals on the appointment of members of the Board of Management if in the first vote the majority required for the appointment of a Board of Management member of two thirds of the members of the Supervisory Board is not achieved. As in previous years, the Mediation Committee did not have to take any action in financial year 2016.

Germany's law on the equal participation of women and men in executive positions

In accordance with the German law requiring women and men to be equally represented in executive positions in both the private and the public sector, the supervisory boards of listed companies or companies subject to Germany's system of codetermination have to set a target for the proportion of women on the board of management. The board of management of such a company has to set a target for the proportion of women at the two management levels below that of the board of management. If the proportions of women at the time when these targets are set by the Board of Management and the Supervisory Board are below 30%, the targets may not be lower than the proportions already reached. At the same time that the targets are set, the boards have to set periods for their achievement, which may not be longer than five years. In the first step, targets had to be set by no later than September 30, 2015, and deadlines fixed for no later than June 30, 2017.

To meet these legal requirements, the Supervisory Board of Daimler AG passed a resolution on April 28, 2015 that the target figure for the proportion of women on the Board of Management of Daimler AG would be 12.5% (the same as the status quo at the time when the resolution was passed), while the deadline would be December 31, 2016. As of December 31, 2016, the eight-member Board of Management included a woman, Renata Jungo Brüngger. As a result, women account for 12.5% of the Board of Management members, which means the current target has been met. This also means that the status quo for the next target will be 12.5%.

In its last meeting in the reporting period on December 8, 2016, the Supervisory Board set a target for the proportion of women on the Board of Management of 12.5% with a deadline of December 31, 2020.

With the appointment of Britta Seeger as a member of the Board of Management, effective January 1, 2017, the proportion of women on the Board of Management rose to 25%.

On June 23, 2015, the Board of Management passed a resolution stipulating a target of 6.5% women for the first management level below the Board of Management of Daimler AG (the actual proportion was 5.3% at the time of the resolution) and of 10.0% for the second management level below the Board of Management (the actual proportion was 9.9% at the time of the resolution). The Board of Management set December 31, 2016 as the deadline for both of these targets.

At the time of the deadline on December 31, 2016, the proportion of women in the first management levels below the Board of Management was 8.1% and 12.4% in the second management levels, respectively, which means the targets we set for ourselves were surpassed.

On November 8, 2016, the Board of Management passed a resolution stipulating a target of 15% women for both the first and second management levels below the Board of Management, with a deadline of December 31, 2020.

Since 2016, listed companies that have supervisory boards in which shareholders and employees are equally represented are required to have a proportion of at least 30% women and 30% men. This requirement has to be fulfilled by the Supervisory Board as a whole. If the side of the Supervisory Board representing the shareholders or the side representing the employees objects to the Chairman of the Supervisory Board about the application of the ratio to the entire Supervisory Board, the minimum ratio is to apply separately to the shareholders' side and to the employees' side for that election.

On December 31, 2016, 30% of the shareholder representatives in the Supervisory Board of Daimler AG were women (Sari Baldauf, Andrea Jung and Petraea Heynike), while 70% were men. On that date, 20% of the employee representatives on the Supervisory Board were women (Elke Tönjes-Werner and Sibylle Wankel), while 80% were men. In its meetings on December 8, 2016, and February 10, 2017, the Supervisory Board considered its nominations for the election at the Annual Shareholders' Meeting 2017 and came to the conclusion that the shareholders and employee representatives should achieve the legally required share of women board members separately. Before this background the shareholder representatives declared in both meetings that they object to the Supervisory Board's joint fulfillment of the legally required gender ratio. Thereafter, the Supervisory Board decided to nominate Dr. Clemens Börsig and Bader Mohammad Al Saad for election to the Supervisory Board by the Annual Shareholders' Meeting 2017. The next election of employee representatives to the Supervisory Board will take place in 2018.

Along with Daimler AG itself, there are other Group companies subject to codetermination law. These companies have defined their own targets for the proportion of women on their supervisory boards, executive management bodies and the two levels below the board or executive management level, and have also set deadlines for target achievement. All relevant information here has been published in accordance with applicable law.

Shares and share transactions by Board of Management and Supervisory Board members

As of December 31, 2016, the members of the Board of Management held a total of 0.25 million shares or options on shares of Daimler AG (0.024% of the shares issued). On the same date, the members of the Supervisory Board held a total of 0.02 million shares or options on shares of Daimler AG (0.002% of the shares issued).

Members of the Board of Management and the Supervisory Board, as well as natural or legal persons closely related to them, are required to report business transactions involving financial instruments of Daimler AG, particularly shares or bonds or derivatives of these financial instruments, once a total transaction volume of €5,000.00 has been reached or exceeded within a calendar year. All such transactions reported in 2016 have been published at the Company's website daimler.com/dai/dd/en.

Shareholders and the Annual Shareholders' Meeting

The shareholders exercise their membership rights, in particular their information and voting rights, at the Annual Shareholders' Meeting. Each share in Daimler AG entitles its owner to one vote. There are no multiple voting rights, preferred stock, or maximum voting rights at Daimler AG. Documents and information relating to the Annual Shareholders' Meeting can be found on our website at daimler.com/ir/am. The Annual Shareholders' Meeting is generally held within four months of the end of a financial year. The Company facilitates the personal exercise of the shareholders' rights and proxy voting in a variety of ways, such as by appointing proxies who are strictly bound by the shareholders' voting instructions and who can be contacted also during the Annual Shareholders' Meeting. Absentee voting is also possible. It is possible to authorize the Daimler-appointed proxies and give them voting instructions or to cast absentee votes by using the e-service for shareholders.

We maintain close contacts with our shareholders in the context of our comprehensive investor relations and public relations activities. We regularly and comprehensively inform our shareholders, financial analysts, shareholder associations, the media and the interested public about the situation of the Group, and inform them without delay about any significant changes in its business.

In addition to other methods of communication, we also make extensive use of the Company's website. All of the important information disclosed in 2016, including annual and interim reports, press releases, voting rights notifications from major shareholders, presentations, and audio recordings of analyst and investor events and conference calls, as well as the financial calendar, can be found at daimler.com/investors. All the dates of important disclosures such as annual reports and interim reports and the dates of the Annual Shareholders' Meeting, the annual press conference and the analyst conferences are announced in advance in the financial calendar. The financial calendar is also included in this Annual Report as a bookmark. Disclosures are made in English as well as in German.