

DAIMLER

Annual Report 2016



Key Figures

Daimler Group			
	2016	2015	16/15
€ amounts in millions			% change
Revenue	153,261	149,467	+3 ¹
Investment in property, plant and equipment	5,889	5,075	+16
Research and development expenditure	7,572	6,564	+15
Free cash flow of the industrial business	3,874	3,960	-2
EBIT	12,902	13,186	-2
Net profit	8,784	8,711	+1
Earnings per share (in €)	7.97	7.87	+1
Dividend per share (in €)	3.25	3.25	0
Employees (December 31)	282,488	284,015	-1

¹ Adjusted for the effects of currency translation, revenue increased by 3%.



Cover photo

With Concept EQ, Mercedes-Benz shows how the electric car can move into the fast lane. The study in the style of an SUV coupe appeals with a range of up to 500 kilometers and the typical Mercedes strengths of safety, comfort and connectivity. The Concept EQ therefore stands for modern, sustainable mobility. In the future, Mercedes-Benz will present all of its e-mobility activities under the EQ brand, with an ecosystem of products, services, technologies and innovations. Customers will have access to a spectrum ranging from electric vehicles to wall boxes, charging services and home-energy storage units.

Daimler's Divisions >
Daimler at a Glance >

Divisions

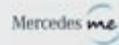
	2016	2015	2014	16/15
€ amounts in millions				% change
Mercedes-Benz Cars				
Revenue	89,284	83,809	73,584	+7
EBIT	8,112	7,926	5,853	+2
Return on sales (in %)	9.1	9.5	8.0	.
Investment in property, plant and equipment	4,147	3,629	3,621	+14
Research and development expenditure	5,671	4,711	4,025	+20
thereof capitalized	2,008	1,612	1,035	+25
Unit sales	2,197,956	2,001,438	1,722,561	+10
Employees (December 31)	139,947	136,941	135,553	+2
Daimler Trucks				
Revenue	33,187	37,578	32,389	-12
EBIT	1,948	2,576	1,878	-24
Return on sales (in %)	5.9	6.9	5.8	.
Investment in property, plant and equipment	1,243	1,110	788	+12
Research and development expenditure	1,264	1,293	1,188	-2
thereof capitalized	57	26	34	+119
Unit sales	415,108	502,478	495,668	-17
Employees (December 31)	78,642	86,391	87,628	-9
Mercedes-Benz Vans				
Revenue	12,835	11,473	9,968	+12
EBIT	1,170	880	682	+33
Return on sales (in %)	9.1	7.7	6.8	.
Investment in property, plant and equipment	373	202	304	+85
Research and development expenditure	442	384	293	+15
thereof capitalized	238	153	68	+56
Unit sales	359,096	321,017	294,594	+12
Employees (December 31)	24,029	22,639	21,598	+6
Daimler Buses				
Revenue	4,176	4,113	4,218	+2
EBIT	249	214	197	+16
Return on sales (in %)	6.0	5.2	4.7	.
Investment in property, plant and equipment	97	104	105	-7
Research and development expenditure	202	184	182	+10
thereof capitalized	11	13	11	-15
Unit sales	26,226	28,081	33,162	-7
Employees (December 31)	17,899	18,147	17,473	-1
Daimler Financial Services				
Revenue	20,660	18,962	15,991	+9
EBIT	1,739	1,619	1,387	+7
New business	61,810	57,891	47,912	+7
Contract volume	132,565	116,727	98,967	+14
Investment in property, plant and equipment	37	30	23	+23
Employees (December 31)	12,062	9,975	8,878	+21

OUR BRANDS AND DIVISIONS

Mercedes-Benz Cars



MAYBACH



Daimler Trucks



Mercedes-Benz Vans



Daimler Buses

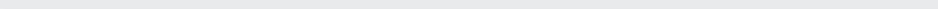


Daimler Financial Services

Mercedes-Benz Bank

Mercedes-Benz
Financial Services

Daimler Truck Financial



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Information guidance system

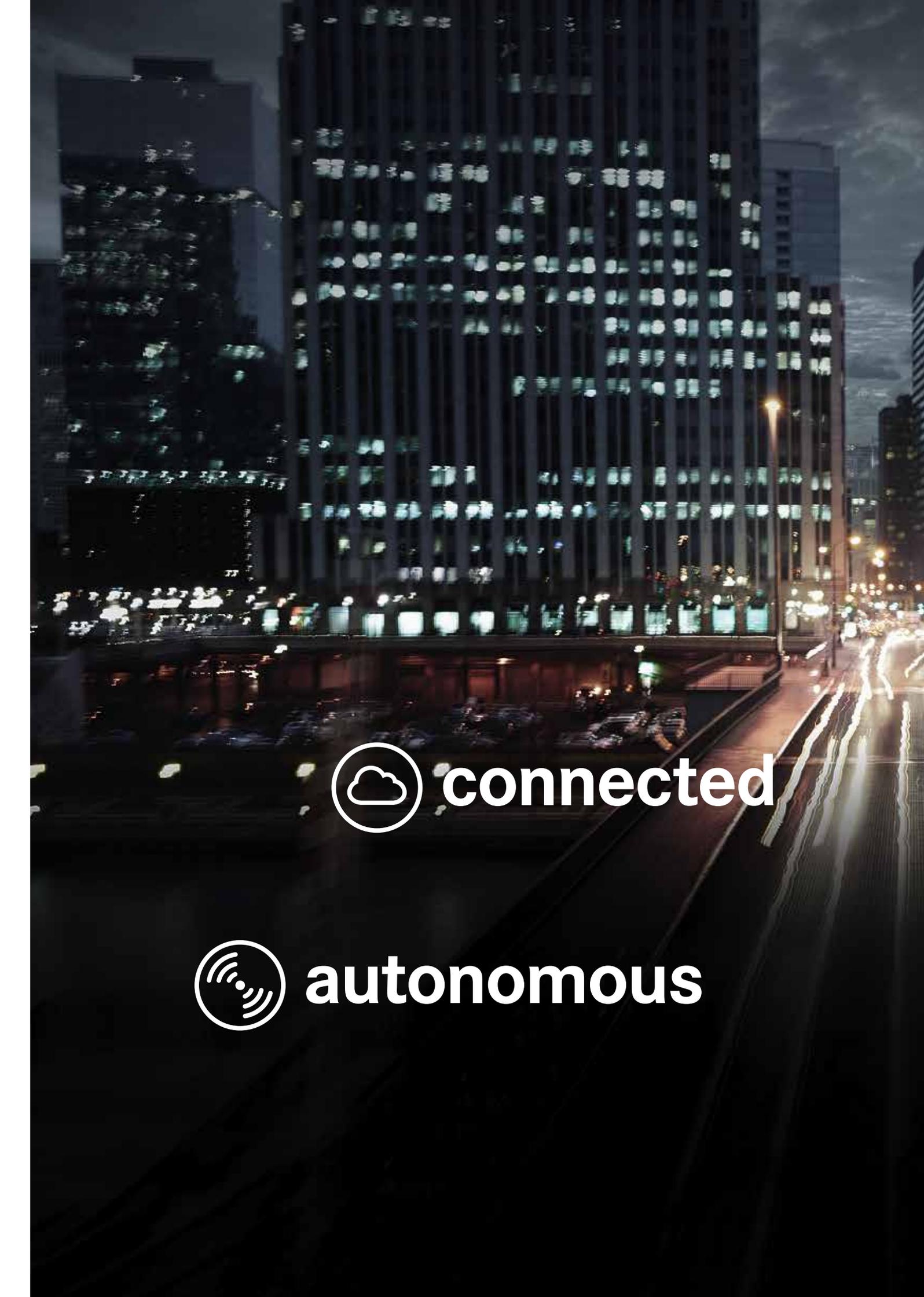
 Refers to an illustration or a table in the Annual Report

 Refers to additional information on the Internet

 Cross-reference within the Annual Report

 Refers to a Daimler publication

Future Mobility



 **connected**

 **autonomous**



**shared &
services**



electric



connected





electric

Concept EQ

Harbinger of a new era of mobility: The visionary Concept EQ makes a fascinating impression with its innovative electro-style look. The concept car offers a detailed preview of our new generation of vehicles equipped with battery-electric drive systems.

 pages 22 f

 ar2016.daimler.com/electric



Mercedes-Benz Vision Van

Delivers revolutionary concepts: With its fully automatic cargo area, integrated delivery drones and other innovations, the intelligent Vision Van defines the requirements for fully connected delivery chains and the vans of the future.

 pages 44 f

 ar2016.daimler.com/connected



 **electric**



Mercedes-Benz Urban eTruck

Innovations on board: The locally emission-free and extremely quiet, connected and fully electric Urban eTruck demonstrates how heavy-duty distribution transportation will be taken to a whole new level in the cities of tomorrow.

 pages 42 f

 ar2016.daimler.com/connected



 **electric**



connected



autonomous

Mercedes-Benz Future Bus

Hop on, please: Autonomously driving city buses will make local public transportation faster, safer and more comfortable. The Future Bus with CityPilot has already demonstrated this on a drive along Europe's longest Bus Rapid Transit route.

 pages 38 ff

 ar2016.daimler.com/autonomous

Future Mobility

We are and will remain pioneers. As the inventor of the automobile, we are also shaping the future of mobility.

Connected, autonomous, integrated into mobility or service concepts and powered by electricity – this is our vision of the vehicles of tomorrow.

Many of our innovations are already on the road, and our visionary ideas continue to set the pace for future developments. That's why we are transforming ourselves from an automobile manufacturer into a provider of mobility services, meeting changed customer requirements and venturing into new markets. Our digital transformation is well under way along the entire value chain. With the start-up spirit of our founders, a new culture of cooperation, efficient processes and our commitment to integrity, Daimler is continuing on its course of profitable growth and creating long-term value.

CASE: Connected. Autonomous. Shared & Services. Electric.

We are fundamentally redefining mobility with an intelligent mix of technologies and services.



connected

Vehicle connectivity generates added value for our customers. Adaptable systems and networked services support drivers and communicate with the vehicle's surroundings. Digital formats offer access to services, enable users to remotely obtain vehicle information and facilitate the efficient organization of delivery operations.



autonomous

Autonomous driving represents the biggest mobility revolution since the invention of the automobile – and it's already a reality at Daimler. In the autonomous mode, self-driving vehicles can manage various situations on their own without a driver's intervention. This will make it possible to improve traffic flows, implement flexible logistics processes and enjoy a relaxing driving experience.



shared & services

Today, destinations can be chosen spontaneously and reached flexibly by car or any other mode of transport. Renting vehicles on the spur of the moment, sharing parking spaces, booking long-distance bus trips, determining the best route from point A to point B, and using cars as service platforms – just about anything is possible with a smartphone and our mobility concepts.



electric

Electric mobility is the future. And we're on board! We already offer numerous electric vehicles today, and the first EQ production vehicle will be launched in the medium term. We are electrifying vans, trucks and buses and establishing a service system with batteries, stationary energy-storage devices, charging technologies and recycling programs. We are also optimizing combustion engines, which continue to be important for mobility.

Automobile next level

More than just a car

Dynamic and vibrant cities are becoming more and more crowded. The people who live in such cities have a growing need for more privacy, time and individuality. They would like to have a type of infrastructure that provides greater personal freedom and mobility. Daimler is addressing all of these needs as a pioneer of mobility. We are creating new possibilities with electric drive systems and efficient combustion engines, autonomous and connected vehicles, shared mobility concepts and personalized services.

The automobile is set to take its place beside the home and the office as the exclusive third realm for living and working. Efficient traffic flows will improve air quality and road safety – thus ensuring a better quality of life in urban areas. We are on the road to a new age of mobility.



Concept EQ cockpit



Intelligence on the move

Daimler is rapidly forging ahead with the development of autonomous vehicles. The new Mercedes-Benz E-Class offers a look at what can already be achieved today. The world's most intelligent business sedan can automatically maintain the right distance to vehicles ahead and drive partially autonomously on highways and country roads, as well as in cities. It also assists the driver with lane changes, evasive maneuvers and braking. What's more, the E-Class can even be parked remotely using a smartphone.

 daimler.com/products

 mercedes-benz.com/en/mercedes-benz/next/automation



autonomous

Mercedes-Benz is
ahead of the rest for
autonomous driving



In the flow

More efficient traffic infrastructure and greater safety: Urban areas benefit from autonomous vehicles. And drivers can enjoy greater comfort because there's less for them to do. All of this may sound like science fiction, but the automated E-Class has already made it a reality in everyday driving situations.

Partially autonomous driving and automated parking at the highest level of sophistication: Mercedes-Benz is setting standards for autonomous driving with the new E-Class. The model is equipped with numerous intelligent assistance systems that support drivers in a way that's never been done before. This support reduces drivers' stress levels. It makes driving more enjoyable and increases driver attentiveness, thus benefiting everyone on the road.

Innovative assistance systems are at the heart of the automated E-Class. This enables the car to automatically maintain an appropriate distance from vehicles ahead at a speed of up to 210 km/h. It also automatically recognizes speed limits. Drivers no longer need to operate the brake or gas pedals, and they also receive steering support. However, due to legal and other requirements, drivers must keep their hands on the steering wheel during all automated maneuvers.

Swarm organization reduces stress. Like a swarm, the E-Class takes surrounding vehicles and parallel structures into account. Electronic assistants can actively intervene even if road markings are unclear or nonexistent. The system therefore makes things easier on drivers, especially in heavy congestion and traffic jams.

Active Brake Assist issues a warning when pedestrians cross the road. It also assists the driver with braking and can even brake on its own if necessary. Evasive Steering Assist helps the driver avoid obstacles in a controlled manner and then drive past them safely.

Lane changes made easy. The new E-Class uses state-of-the-art radar and camera technology to assist the driver when changing lanes on multi-lane roads – when overtaking, for example. Once the driver has activated the turn indicator for at least two seconds, the system helps steer the vehicle into the desired adjacent lane, provided it detects that the lane isn't occupied.

A further step on the road to autonomous driving. The new E-Class is the world's first production car to be issued a test license for autonomous driving in Nevada in the United States without having to undergo a hardware modification – only the software has been slightly changed.

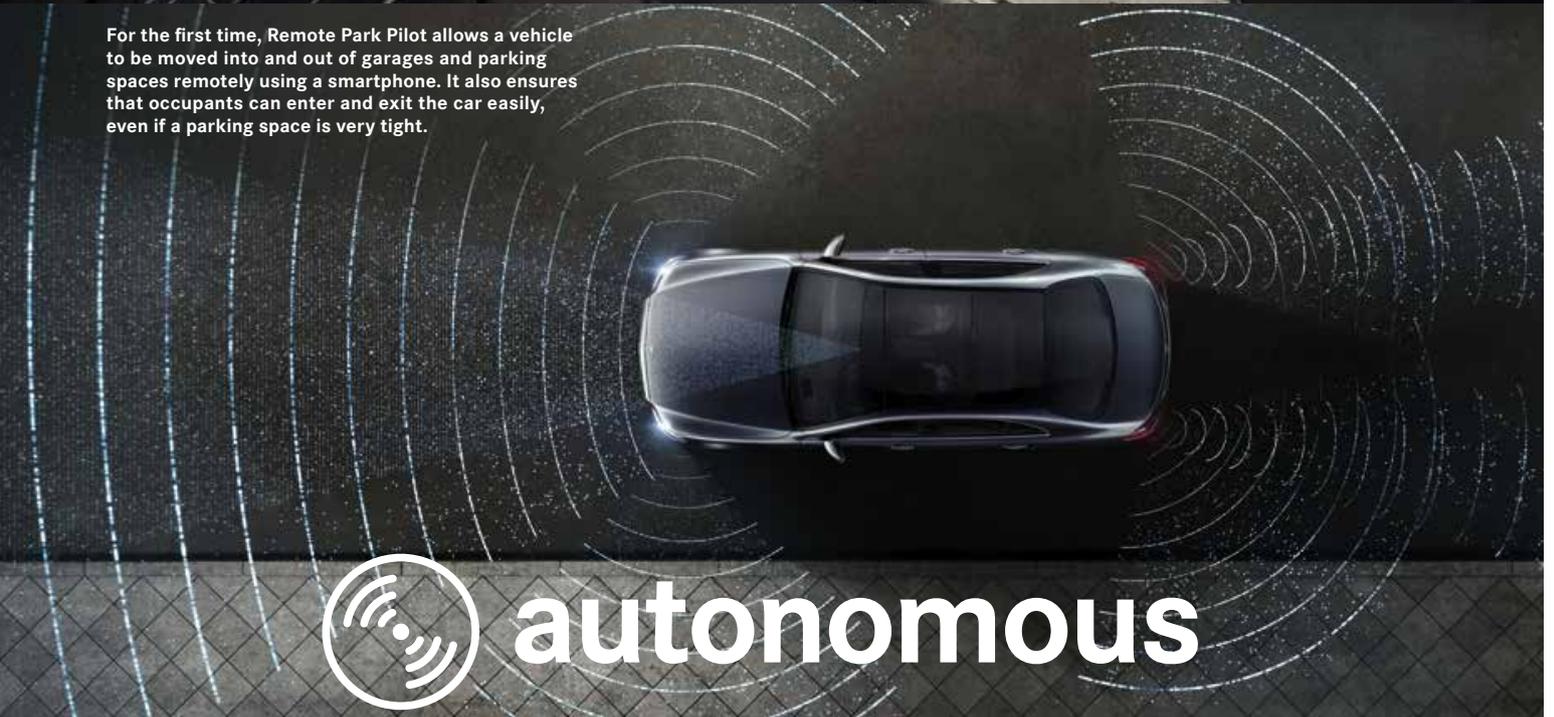
 [mercedes-benz.com](https://www.mercedes-benz.com)

Cautious autonomous driving in cities brings greater safety for all





For the first time, Remote Park Pilot allows a vehicle to be moved into and out of garages and parking spaces remotely using a smartphone. It also ensures that occupants can enter and exit the car easily, even if a parking space is very tight.



autonomous



The centerpiece of e-mobility

Highly efficient batteries hold the key to an emission-free future.

The construction of a second battery manufacturing plant at Daimler's Deutsche Accumotive subsidiary marks a further step in our systematic strategy for electric mobility. The biggest and most modern facility for the production of lithium-ion batteries in Europe is now being built in Kamenz. The batteries will be used in all hybrid and electric vehicles from Mercedes-Benz and smart, as well as for our new business activities with stationary energy-storage devices.

 accumotive.com

14/332/043
SB03 P012 K2

We will offer electric drive for all Mercedes-Benz car models



electric

It's electric!

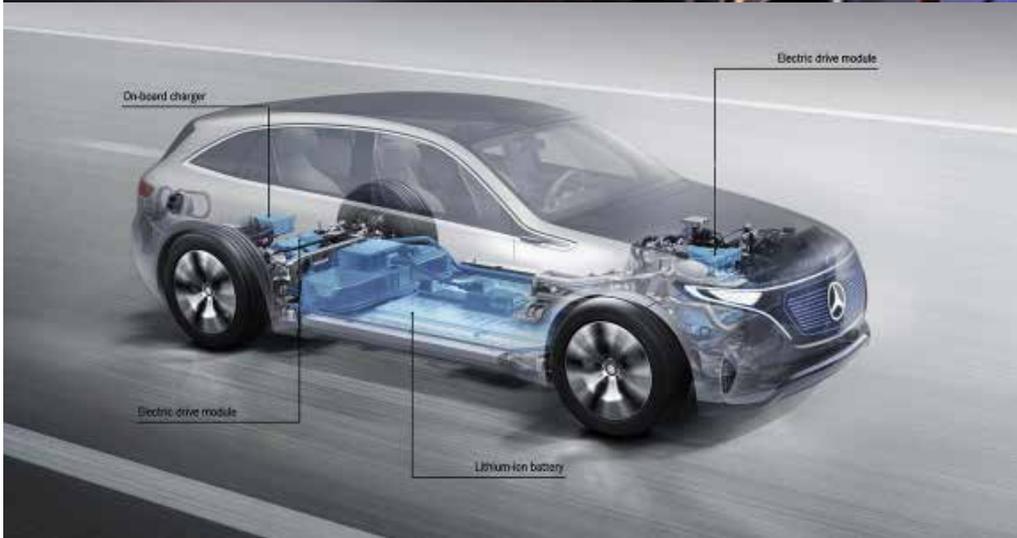
Daimler is putting sustainable mobility on the road. It is doing so on a large scale and at a fast pace with efficient high-tech combustion engines, a plug-in hybrid offensive, electric vehicles powered by batteries and fuel cells – and our new EQ product brand.

EQ, which is a fundamental component of our strategy for the mobility of the future, stands for “Electric Intelligence.” The brand’s portfolio includes all the battery-electric automobiles from Mercedes-Benz. We’re also taking things a step further by establishing a holistic system of electric mobility products, technologies, innovations and services.

We're turning up the power. Many of our customers today already use the Mercedes-Benz charging infrastructure, which will be operated and further expanded under the EQ brand name in the future. This infrastructure includes wallboxes for the fast charging of electric vehicles, the Stromtank app for public charging stations, and stationary energy-storage devices for private and industrial applications.



Fine tuning the trailblazing fast-charging technology for our electric models.



A scalable vehicle architecture for all model types serves as the basis for all battery-electric EQ models – i.e. SUVs, sedans and coupes.

Concept EQ: Electric mobility redefined. The Concept EQ is a show car with an SUV coupe design that points the way forward to ultramodern electric mobility and offers a preview of an all-new generation of electric vehicles. The near-production vehicle study is equipped with two electric motors with an output of up to 300 kW. It also has permanent all-wheel drive and a range of up to 500 kilometers. As a result, it offers extremely dynamic handling and loads of driving pleasure.

Ready for the electric mobility offensive, from compacts to the luxury class. The first series-produced EQ model will be based on the SUV concept and launched near the end of the decade. It will be built at the Mercedes-Benz plant in Bremen. Preparations are already well under way. All other electric vehicles from Mercedes-Benz will also be manufactured in the brand's global production network.

Fuel cell plus plug-in. Fuel cells are another key component of our electrification strategy. We've already demonstrated the market maturity of fuel cells with the B-Class F-CELL (H₂ consumption in kg/100 km: 0.97; CO₂ emissions in g/km: 0.0). This year, we will also present a new generation of fuel-cell vehicles based on the Mercedes-Benz GLC and equipped with innovative plug-in technology. Our compact fuel-cell system now fits into normal engine compartments for the first time. We have also introduced a supplementary energy source for the electric motor in the form of an additional lithium-ion battery that can be easily recharged externally.

 ar2016.daimler.com/electric

 mercedes-benz.com/en/mercedes-benz/next

Hot and cool:
The avant-garde
Concept EQ



 **electric**

The distinctive electro-style look of the Concept EQ reinterprets the Mercedes-Benz design philosophy and highlights the vehicle's powerful electric drive.

Three for the charging station

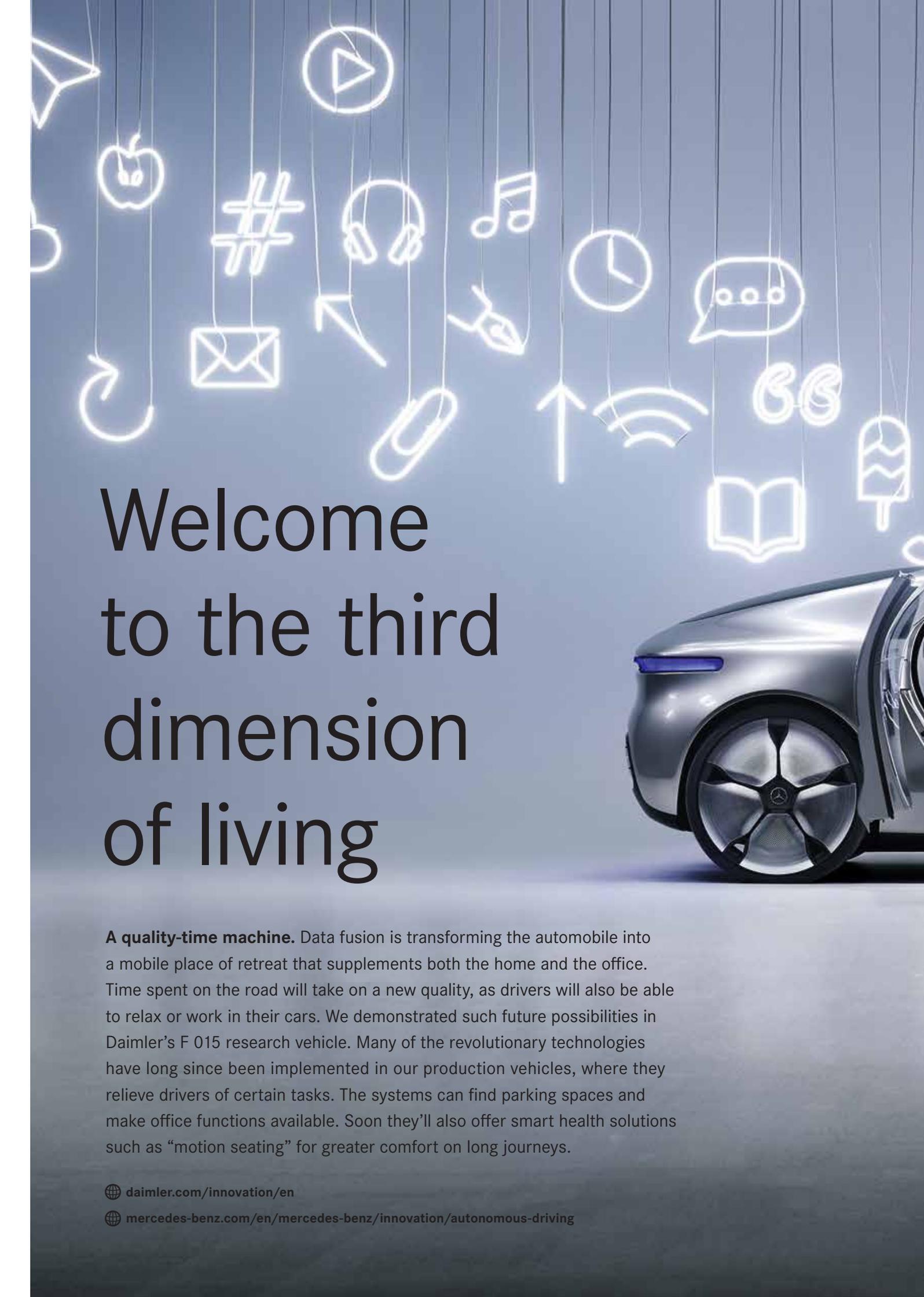
New models from the pioneer of electric city cars. The smart fortwo electric drive (electricity consumption combined: 13.1-12.9 kWh/100 km; CO₂ emissions combined: 0 g/km) made Daimler the first German automaker to mass-produce electric cars. Now the smart fortwo coupe, the smart fortwo convertible and the new four-seat smart forfour have been equipped with battery-electric drive as well. The smart brand thus boasts a complete electric fleet whose short charging times, fast-charging options and range of up to 160 kilometers make city driving a pure pleasure.

 smart.com



Perfect for
urban mobility





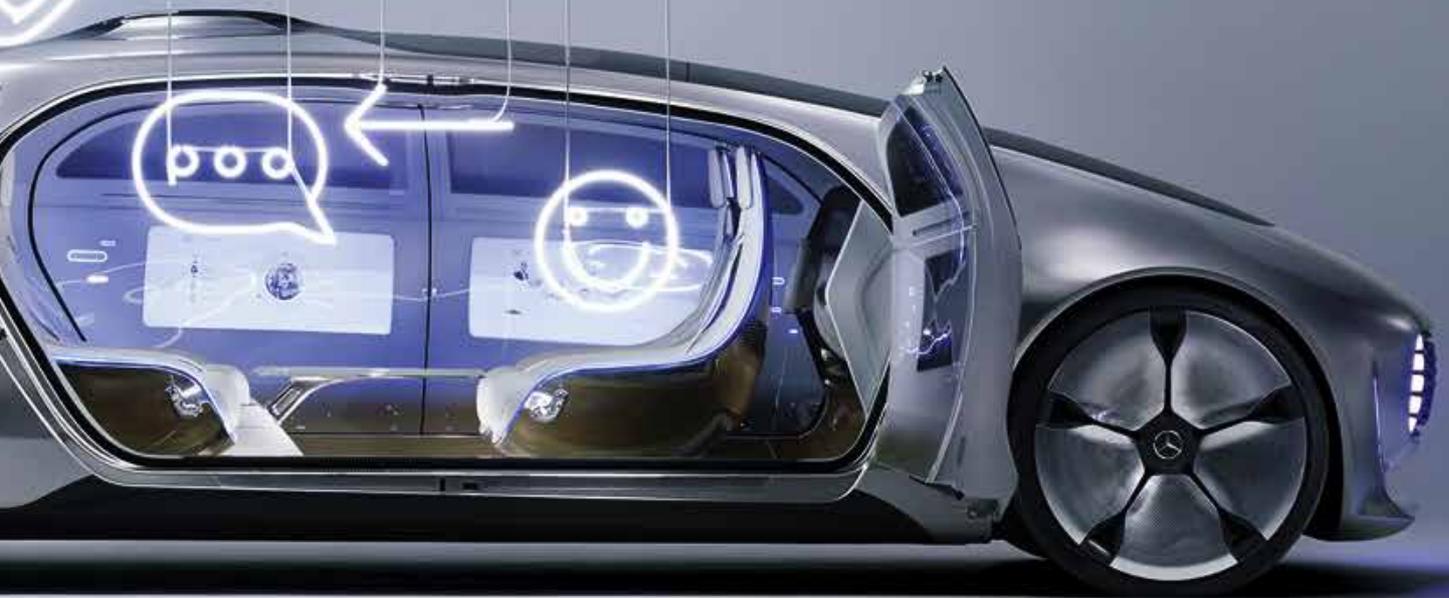
Welcome to the third dimension of living

A quality-time machine. Data fusion is transforming the automobile into a mobile place of retreat that supplements both the home and the office. Time spent on the road will take on a new quality, as drivers will also be able to relax or work in their cars. We demonstrated such future possibilities in Daimler's F 015 research vehicle. Many of the revolutionary technologies have long since been implemented in our production vehicles, where they relieve drivers of certain tasks. The systems can find parking spaces and make office functions available. Soon they'll also offer smart health solutions such as "motion seating" for greater comfort on long journeys.

 daimler.com/innovation/en

 mercedes-benz.com/en/mercedes-benz/innovation/autonomous-driving

Spending time on the road
in a whole new way



connected

Car-to-X safety net

What if a driver could see potential hazards around the next bend? Car-to-X communication is transforming this vision of intelligent mobility into reality. Daimler is the world's first automaker to put this innovation on the road.

Car-to-X technology enables vehicles to communicate with each other and with the traffic infrastructure so that they can share information about a sudden traffic jam over a hill, for example, as well as about black ice on the road or a construction site just ahead. This safety net is based on a clever principle, namely that every vehicle equipped with Car-to-X technology can both send and receive such warnings. Car-to-X technology premiered in the new Mercedes-Benz E-Class and will be gradually introduced to more models in the future.

Efficient mobility through communication. If a vehicle approaches a potentially dangerous area and receives a warning, the driver will be alerted by a visual signal and an alarm. The driver can then adjust his or her driving style and thus avoid an accident or circumvent a traffic jam. In this manner, Car-to-X communication not only makes driving safer, it also improves traffic flows.

🌐 daimler.com/innovation/connectivity

🌐 daimler.com/products/specials/new-e-class/car-to-x.html

Detecting hazards
in advance,
preventing accidents

The more extensive the information network, the greater the benefits for road users. The goal is therefore to have all automakers jointly operate Car-to-X communication systems.



connected



Community-based parking is now making parking faster and easier with the help of the Remote Park Pilot system in the Mercedes-Benz E-Class.

Community-based Parking

Searching for a parking space often takes time and can be very annoying. And while some people are looking for spaces, others who don't need a space drive by vacant ones. A new service from Mercedes-Benz now makes it possible for the first time to provide drivers with information about available parking spaces.

Community-based parking speeds up the process of finding a space. Daimler developed this intelligent technology with Bosch, and it's now being tested in Stuttgart. Mercedes-Benz cars are serving as pilot vehicles that send and receive information about available parking spaces.

Faster parking. The new E-Class from Mercedes-Benz is a connected vehicle that continually scans the sides of streets. The data especially collected for community-based parking is made available to all drivers of vehicles equipped with a community-based parking system. The information is displayed in the vehicle as a digital parking space map and can also be viewed using the Mercedes me app. The car's navigation system uses the data to direct the driver to the nearest available space.

Cars are becoming parking
space search engines

It's all about me

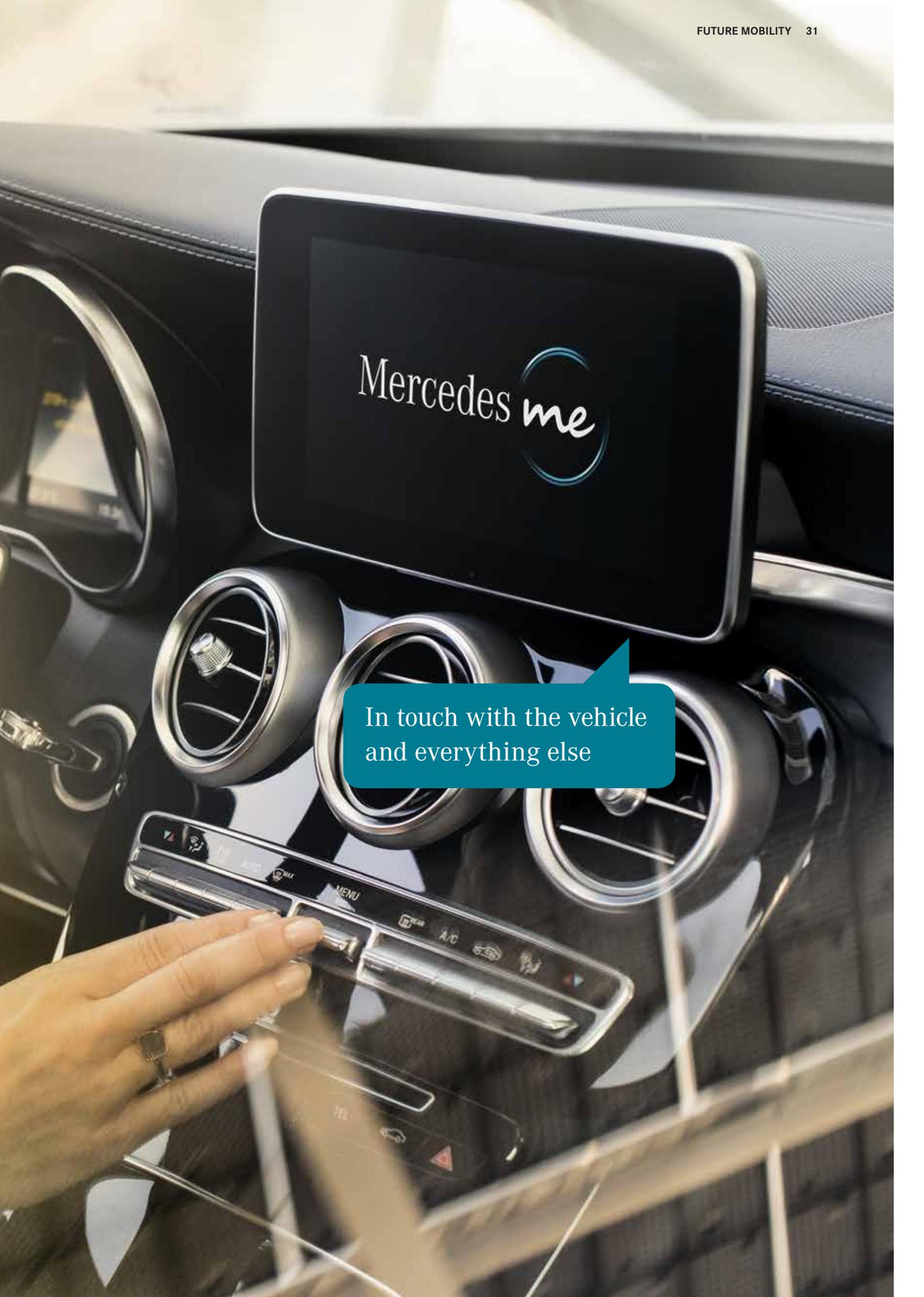
What can we do for you today? Mercedes me offers personalized services, products and lifestyle accessories. Mercedes me connect links drivers and vehicles and provides support with Car-to-X communication, live traffic updates and tele-diagnosis services. Smartphones can open and lock cars and can also be used to operate the Remote Park Pilot or remotely view data about vehicle functions. The new Digital Anticipation service assists customers with vehicle purchases and deliveries. The Concierge Service – the new personal assistant in the vehicle – offers route tips, recommends restaurants and books tickets.

 mercedes-benz.com/en/mercedes-me

 me.secure.mercedes-benz.com



connected



In touch with the vehicle
and everything else

Like having your own car

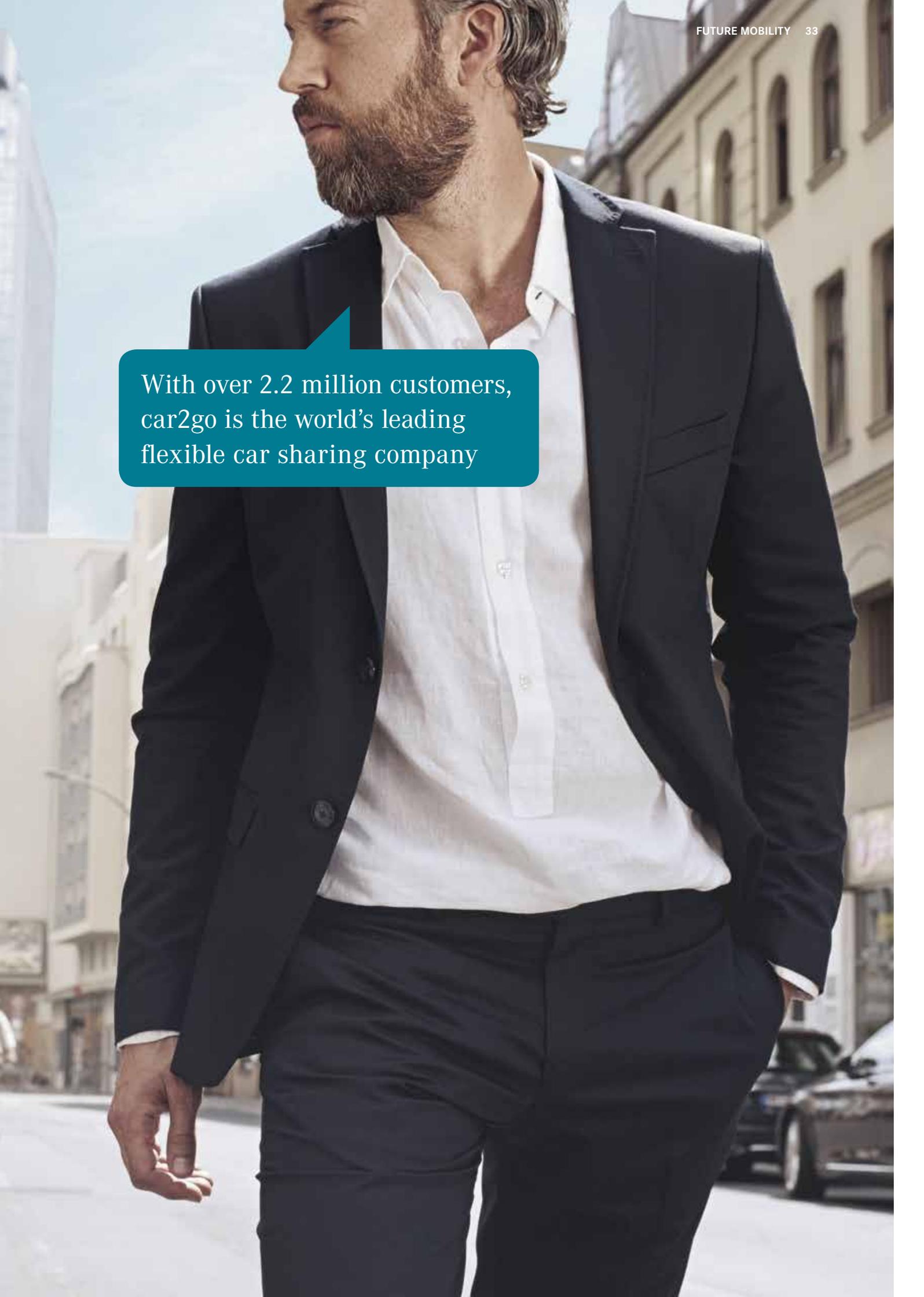
New variety for spontaneous mobility. car2go now offers Mercedes-Benz vehicles along with smart models in many cities. Those who need a vehicle quickly – with cargo space and room for several people – can choose between the A-Class and B-Class, the CLA and the GLA. With the help of an app, it's possible to rent the cars and drive away on the spot, and billing is based on the number of minutes the vehicle is used. The expanded fleet makes car2go customers even more flexible, and mobility options are increased by the private carsharing services Croove and smart ready to share.

 car2go.com  letscroove.com  ar2016.daimler.com/shared



shared & services

CAR2GO.COM

A man with a beard and short hair, wearing a dark navy blue suit jacket over a white button-down shirt, is walking on a city street. He is looking to his left. The background shows a city street with buildings and a car. A teal speech bubble is overlaid on the image, containing text.

With over 2.2 million customers, car2go is the world's leading flexible car sharing company

Shared happiness

Being flexibly mobile without having to get behind the wheel. Heading to a club with friends or to the airport with business partners: Daimler's innovative mobility services get people where they need to go, while mytaxi makes grabbing a cab a cinch. Cars are also making life easier in new ways – for example, by transforming the trunk into a parcel delivery box!

Getting a taxi without having to make a phone call: mytaxi. This innovative app enables taxis and customers to find each other, and that makes ordering and paying for a taxi easier and more efficient. Back in 2009, mytaxi revolutionized the taxi business. With more than ten million downloads, it quickly became the leading taxi-ordering app and a brand icon in Europe. mytaxi has been continually refined since then, and it now offers everything from advance ordering and payment to systems for setting preferred drivers and rating drivers. mytaxi's merger with the Hailo taxi app in 2016 underscores Daimler's position as a leading provider of mobility services. The two companies complement each other perfectly with their combined geographic coverage. The merger has created Europe's biggest company in this sector, with six million passengers and 100,000 registered taxi drivers in more than 50 cities in nine European countries.

Professional chauffeur service: Blacklane. More and more people are interested in urban chauffeur services for trips to airports, business meetings and various events. Customers can book the Blacklane chauffeured limousine service quickly and easily with an app. Blacklane is present in 250 cities and 500 airports in more than 50 countries worldwide.

Mobility searches, bookings and payments: moovel. moovel is the first mobility app that makes it possible to search for, book and pay for a variety of mobility services. moovel can be used all over Germany to book and pay for trips with car2go, mytaxi and the Deutsche Bahn rail company. In Stuttgart and Hamburg, it can also be used to directly purchase tickets for the local public transportation systems in those cities. In the United States moovel transit is the leading provider of mobile ticket solutions for public transportation apps. In addition, moovel offers online assistants for Facebook and Slack messenger services.

Ordered online and delivered to your car: smart ready to drop. Cars can do more than just move people. Innovative services from Daimler also let them make daily life easier – and smart ready to drop is the first example. Together with DHL and online retailers, smart enables parcels to be delivered directly to a smart car's trunk. Beta tests are now under way in several German cities.

Digital loading assistant: pactris. A creative idea from the smart lab transforms vehicles into service platforms: The pactris app checks whether all purchased products will fit in the trunk and shows how they should be arranged – before the user has even finished shopping.

Order, pay and rate the trip:
the mytaxi app.



 mytaxi.com

 blacklane.com

 moovel.com

 smart.com



**shared &
services**

Transportation next level



More than just commercial vehicles

More and more people, vehicles and goods are now on the move in cities. While the destinations and reasons for traveling differ, there is one overriding goal: to achieve maximum safety, efficiency and environmental compatibility. To this end, Daimler offers future-oriented buses, trucks and vans. Our electric drive systems, vehicle-sharing services, autonomous driving options and vehicle connectivity systems offer solutions for current and future requirements of passenger and goods transportation.

We are transforming our commercial vehicles into digital logistics centers on wheels, while our intelligent mobility concepts are supplementing local public transportation systems and reducing congestion during rush hours. We are upping the pace in all areas.



Next stop: the future

Revolutionary
design in motion



Getting passengers to their destinations comfortably and on time.

Daimler's Highway Pilot system has shown that long-distance road haulage can be made safer and more efficient with autonomous trucks. We extensively enhanced the technology for use in city buses. Last year, the Mercedes-Benz Future Bus with CityPilot demonstrated on its partially automated maiden journey in Amsterdam that local public transportation, urban spaces and the people who live in them can all benefit from the greater efficiency, safety and comfort offered by autonomous buses.

 ar2016.daimler.com/connected



autonomous

Smooth-flowing traffic in Amsterdam

Better traffic flows literally offer a breath of fresh air in large cities. This vision is now within reach, because Daimler is already designing the bus system of tomorrow. A preview is provided by the Future Bus with CityPilot, which passed its first practical test on a BRT (Bus Rapid Transit) route with flying colors last year.

Checks traffic and pulls up to the stop, using radar and a camera



The city bus generation of the future has arrived: The Mercedes-Benz Future Bus with CityPilot stops with centimeter precision at bus stops, opens and closes the doors, and then drives off automatically – without any intervention by the driver.

LAST MILE

INTRA CITY

INTER CITY



FUTURE BUS



autonomous

The Future Bus from Mercedes-Benz is perfect for high-performance BRT systems. These express bus lines with dedicated lanes are making traffic flows smoother and more efficient in large cities and metropolitan areas around the world.

The Future Bus from Mercedes-Benz made its first-ever trip on a section of Europe's longest BRT (Bus Rapid Transit) route between Amsterdam's Schiphol Airport and the city of Haarlem. The 20-kilometer segment has many curves as well as several tunnels and traffic lights – but none of that was a problem for the Future Bus with CityPilot, which drove at speeds of up to 70 km/h and braked and stopped on its own for pedestrians and other obstacles on the road. The driver didn't need to use either the brakes or the accelerator.

CityPilot handles everything. CityPilot in the Future Bus is based on the Highway Pilot system used in the Mercedes-Benz Actros heavy-duty truck. The technology was refined specifically for use with a city bus. As a result, the Future Bus can automatically stay in its lane, recognize traffic lights, stop at bus stops, drive through tunnels and react autonomously to obstacles and pedestrians. Sophisticated camera and radar technologies, as well as a GPS system, provide the Future Bus with an extremely precise “view” of its surroundings and position.

A bus that offers benefits to everyone. The camera and radar system “sees” everything; this makes things easier for drivers in complex traffic situations and also greatly enhances safety. CityPilot improves efficiency as well. The smooth anticipatory driving style it allows reduces component wear, and that increases vehicle availability, lowers maintenance costs and extends the buses' service lives. In addition, the system helps reduce fuel consumption and emissions. Last but not least, the smooth ride ensures greater comfort for passengers.

daimler.com/innovation/autonomous-driving

mercedes-benz.com/en/mercedes-benz/next



Clean, quiet and a range
of 200 kilometers



All-electric distribution

Green light for emission-free electric trucks. More and more people are now living in cities. They want to have cleaner air and less noise around them, but they also want to be able to shop locally. Electric trucks make all three things possible. In the future, such trucks will supply the things people in large cities need every day. With the Urban eTruck, the Vision Van and the FUSO eCanter, Daimler is delivering clean solutions for future logistics systems and a better quality of life in urban areas.

 daimler.com/products/trucks/mercedes-benz



Emission-free logistics

The time is ripe for electric trucks. Highly efficient batteries are paving the way for a technological and economic transformation in the near future. Daimler's Urban eTruck ushers in a new age of heavy-duty distribution transport. The Vision Van offers a preview of all-electric last-mile delivery system. And the FUSO eCanter light-duty truck is already "electrifying" cities.

The Urban eTruck from Mercedes-Benz is not only locally emission-free and extremely quiet, it also offers the same payload and performance as a truck with a combustion engine. The three-axle truck with 26 metric tons GVW has an innovative power supply system that makes it extremely economical to operate.

Urban eTruck: The heavy-duty electric truck pioneer.

The Urban eTruck is based on a three-axle distributor truck from Mercedes-Benz. On it is mounted a cutting-edge drive system with an electrically driven rear axle and electric motors mounted near the wheel hubs. This system produces a maximum output of 2 x 125 kW and torque of 2 x 500 Nm. The innovative axle has already proved its worth in the basic version used in Mercedes-Benz buses. Energy is supplied by a package of lithium-ion battery modules. The truck has a range of up to 200 kilometers, which makes it ideal for typical distribution runs.

Economical and connected. The modular battery pack enables perfect interaction between the drive and energy regulation systems. The Predictive Charge Management system, Predictive Powertrain Control and FleetBoard for urban distribution make the Urban eTruck a very practical vehicle that delivers maximum performance.

FUSO eCanter: The electric pioneer for light-duty transport.

Daimler has launched small-series production of the third generation of the world's first all-electric light-duty truck. The new model is being offered in Europe, the USA and Japan. The FUSO eCanter represents the systematic further development of the FUSO Canter E-Cell, and it differs from its predecessor model in visual terms and technologically. The small production series is equipped with individual battery packs with three to six sets of batteries each. This allows the eCanter to be adapted to different customer requirements with regard to range, price and weight.

 daimler.com/products/trucks



Clever alternatives
for emission-free
urban logistics

The FUSO eCanter can be charged with either 7.2 kW alternating current or 70 kW direct current via a standard Combo 2 plug (combined charging system – CCS). Rapid charging to 80 percent of battery capacity is possible in only an hour with DC charging; AC charging takes seven hours.

A breath of fresh air for distribution haulage in cities. The revolutionary Vision Van has a 75 kW electric drive system and a range of up to 270 km. The vehicle is locally emission-free and nearly noiseless, which makes it perfect for use in areas with emission restrictions or for making late deliveries in residential neighborhoods. The Vision Van study will be followed in 2018 by a Mercedes-Benz production van with electric drive.



electric



The FUSO eCarter boasts several outstanding features. The locally emission-free electric drive helps improve air quality and reduce noise in cities, and also offers an economical alternative to a diesel engine.

Combined efficiency

Innovations for road freight transport. Some 400,000 commercial vehicles built by Daimler Trucks are digitally connected – and Daimler is now developing a new high-performance logistics network to make transportation processes even safer and more efficient. During the world premiere event for Highway Pilot Connect, three heavy-duty trucks were grouped for the first time into a fully automated aerodynamic platoon. The event demonstrated that digitally coupled trucks not only require less road space; they also consume less fuel and produce much lower emissions.

 daimler.com/innovation/connectivity/connected-trucks.html



Transforming a convoy
of independently driving
trucks into a connected
transportation system



Solutions for the last mile

Online commerce is booming. That means an increasing number of parcels need to be delivered very quickly – often on the same day they’re ordered or on specific dates. To ensure a perfect job, customer service personnel want to be able to order parts and tools at the push of a button and have them delivered directly to their vehicles. With all this in mind, Daimler is connecting vans to the Internet in order to create a flexible delivery system.

Mobile material service: An intelligent system saves time and enables just-in-time parts deliveries. The van of the future will be part of the Internet of Things and thus a key component of the digital value chain. Mercedes-Benz vans will enable much more efficient component and tool management systems in the future – for example, in vehicles used by customer service personnel as mobile workshops. The parts needed for the next job will be ordered automatically via an intelligent inventory management system in the service vehicle. Those parts will then be delivered directly to the van on the very next day.

Vans & robots – a perfect combination. The van of the future will be networked with autonomous delivery robots that will enable vehicles to serve as mobile warehouses and transport hubs. A Mercedes-Benz Sprinter prototype is already showing how this can be done. The van serves as a base for parcel deliveries by eight autonomous robots. With its intelligently linked delivery processes, the Sprinter creates new possibilities for significantly increasing the efficiency of last-mile logistics.

Clever robots will allow delivery drivers to devote more time to other tasks

Delivery systems in the future: Vans and robots will speed up and simplify the parcel delivery process within the framework of an automated logistics system.





Revolution in the cargo area

The Vision Van from Daimler is defining the van of the future. The revolutionary concept vehicle is not only fully electric, it also digitally links all participants and processes in the delivery chain from start to finish – from the goods distribution center to the recipient. The van's fully automatic cargo area and integrated delivery drones will accelerate the last-mile delivery process in the future.

Networked technologies make the Mercedes-Benz Vision Van the intelligent centerpiece of a completely automated logistics chain. All processes in this visionary concept are controlled by innovative algorithms and cloud-based software. This includes everything from parcel picking, packing and loading to cargo area management, optimal route planning and aerial drone operation.

Within reach: faster deliveries in an interactive networked system. The intelligent cargo area management system in the Vision Van uses an internal disbursal system

to hand out presorted parcels to the driver for manual delivery. The system simultaneously supplies two drones with parcels for delivery within a ten-kilometer radius. This substantially reduces the delivery time per package as well as vehicle idle time. The Vision Van also creates new possibilities for same-day deliveries and deliveries on specific days. Customers will thus enjoy greater convenience in the future, and unsuccessful deliveries will largely become a thing of the past.

 daimler.com/innovation/specials/vision-van

Pioneering fleet
service on board

CharterWay

ATECO

BW 5436



**shared &
services**

Customized rentals and management

Mobility concepts that increase availability and improve efficiency. Fleet operators are increasingly using rentals to manage peak activity periods while maintaining optimal liquidity. For 25 years now, CharterWay from Daimler has been providing everything fleet managers need for the flexible procurement and management of commercial vehicles. The company's rental fleet is spread across 75 centers in Germany and 57 centers in other European countries, and encompasses the entire range of trucks offered by Mercedes-Benz. The vehicles can be rented for 24 hours or several weeks or months. CharterWay's expanding service portfolio will continue to meet the complete needs of its customers in the future.

Available 24/7

Economy and round-the-clock availability are a must for fleet managers, whose trucks, vans and buses always have to be ready to roll – without having to make unexpected stops or visits to a repair center. Daimler's customized services ensure maximum reliability and underscore the solid partnership between the company and its customers.

Mercedes-Benz Uptime. The new FleetBoard Truck Data Center continually monitors the status of all vehicle systems in Mercedes-Benz trucks while they're on the move. This ensures that shipping companies can obtain real-time information about critical events or repair and maintenance requirements before a truck breaks down. Vehicle failures and costly downtime can thus be avoided and visits to workshops can be organized more efficiently.

Van ProCenter. Mercedes-Benz has sales outlets and authorized partners certified as Van ProCenters in 11 European countries, thereby ensuring an extensive network of van expertise. The Van ProCenters offer customers a comprehensive range of products and services for vans, including everything from advice and repairs to financial products, mobility services and vehicle body and fleet solutions. The Van ProCenters are staffed by specially trained

van experts, have extra-long opening hours and display a large selection of Mercedes-Benz vans in their showrooms. Periodic inspections are also conducted to ensure that the high standards associated with Van ProCenter certification are complied with at all locations.

OmniPlus. This extended range of services for buses from Mercedes-Benz and Setra offers remote diagnosis with the FleetBoard telematics system. This feature can significantly reduce downtime in the event of a breakdown. In addition, a new Bus Depot Management system enables authorized service points to ensure outstanding fleet operations. OmniPlus also includes a unit that offers specialized services to long-distance bus companies.

 [mercedes-benz.com/en/
mercedes-benz/next/connectivity](https://www.mercedes-benz.com/en/mercedes-benz/next/connectivity)

 [omniplus.com](https://www.omniplus.com)

Perfect teamwork

Transport processes made more efficient. Mercedes-Benz Vans Mobility GmbH offers our customers holistic solutions in the form of innovative mobility services for Mercedes-Benz Vans vehicles.

Mercedes-Benz Vans Mobility. This company, which is part of Daimler Financial Services, will begin providing all-encompassing van-related mobility services in mid-2017. This will enable Daimler to meet the rising demand for flexible and innovative concepts for the utilization of vans. Mercedes-Benz Vans Mobility GmbH will be responsible for all such services in the future. Customers will be able to obtain the right solution for their specific needs from a single source at any time. The portfolio includes new sharing, rental, leasing and fleet management services for vans. These services were developed specifically for the entire model range of Mercedes-Benz Vans and are supplemented by numerous equipment and vehicle body solutions for all business sectors.

CAR2SHARE cargo. The new CAR2SHARE cargo fleet and driver management system is another example of the innovative transport solutions provided by Mercedes-Benz Vans Mobility. The pioneering system, which is being tested in a pilot project, improves efficiency by optimizing everything from assignment planning and route coordination to spur-of-the-moment vehicle rentals in bottleneck situations. CAR2SHARE cargo offers three service modules: **Smart Van** for flexible rentals of Mercedes-Benz vans via the car2go approach, with app-based management and billing; **Courier Assist** for fleet management and assignment planning; and **Virtual Fleet** for the flexible rental of additional vehicles during peak activity periods or seasonal fluctuations, for example.

 [car2share.com](https://www.car2share.com)

Future-oriented concepts from Daimler for efficient communication between fleet managers, drivers and vehicles.



shared & services

Optimally on the move in urban areas with the MVMANT mobility platform



In cooperation with the MVMANT start-up, Mercedes-Benz Vans is testing efficient and needs-oriented solutions for the passenger transportation of tomorrow.



Mobility next level

Which aspects will mobility encompass in the future? Many of our visionary vehicles and mobility concepts are already being used, or soon will be. As the inventor of the automobile, Daimler will continue to create new mobility opportunities in the areas of connectivity, autonomous driving, flexible sharing and services, and electric drive systems.



Leadership 2020: together into the future

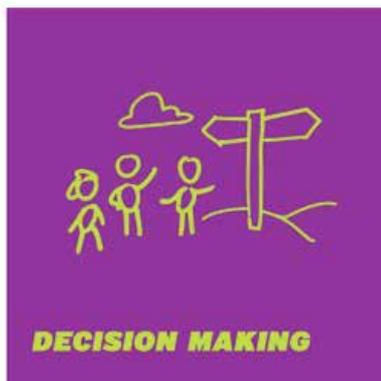
Those who talk about change also
need to deliver change!

The world is changing rapidly. The way we work, obtain information and communicate is also becoming faster and more direct and is taking place in real time. Daimler is more successful than ever and plans to continue keeping pace with the latest developments. In fact, we plan to set the pace in the automotive industry – just as we have done for the past 130 years. That’s one of the reasons why we have a new goal: to establish a new management culture – a culture that ensures we will remain successful in the future as well.

Leadership 2020: The transformation now has a name and a mission. We have been engaged in constant activity and dialogue since January 2016 – across all hierarchies and national borders, in a digital, transparent and networked manner. Above all, we’ve focused on authenticity and tried to make sure that every employee can see and understand our efforts. Leadership 2020 means change. Initial results have already been achieved. Daimler is undergoing a transformation that’s being supported by all employees for all employees.



**CHANGE
THE GAME**
LEADERSHIP 2020



Eight game changers will transform our organization in key areas. New principles of leadership will serve as the foundation for our conduct and actions at Daimler. These principles of leadership are as follows: driven to win, agility, customer orientation, co-creation, empowerment, learning, pioneering spirit and purpose.

In workshops, forums and special events being held on a regular basis, representatives of the Leadership 2020 Community are exchanging ideas on how to effectively implement the eight new game-changing principles of leadership. One idea being discussed here is how swarm organizations might ensure greater agility and flexibility throughout the company in the future.



A lot achieved – more to come

+ 3%

revenue growth
to €153.3 billion

+ 3%

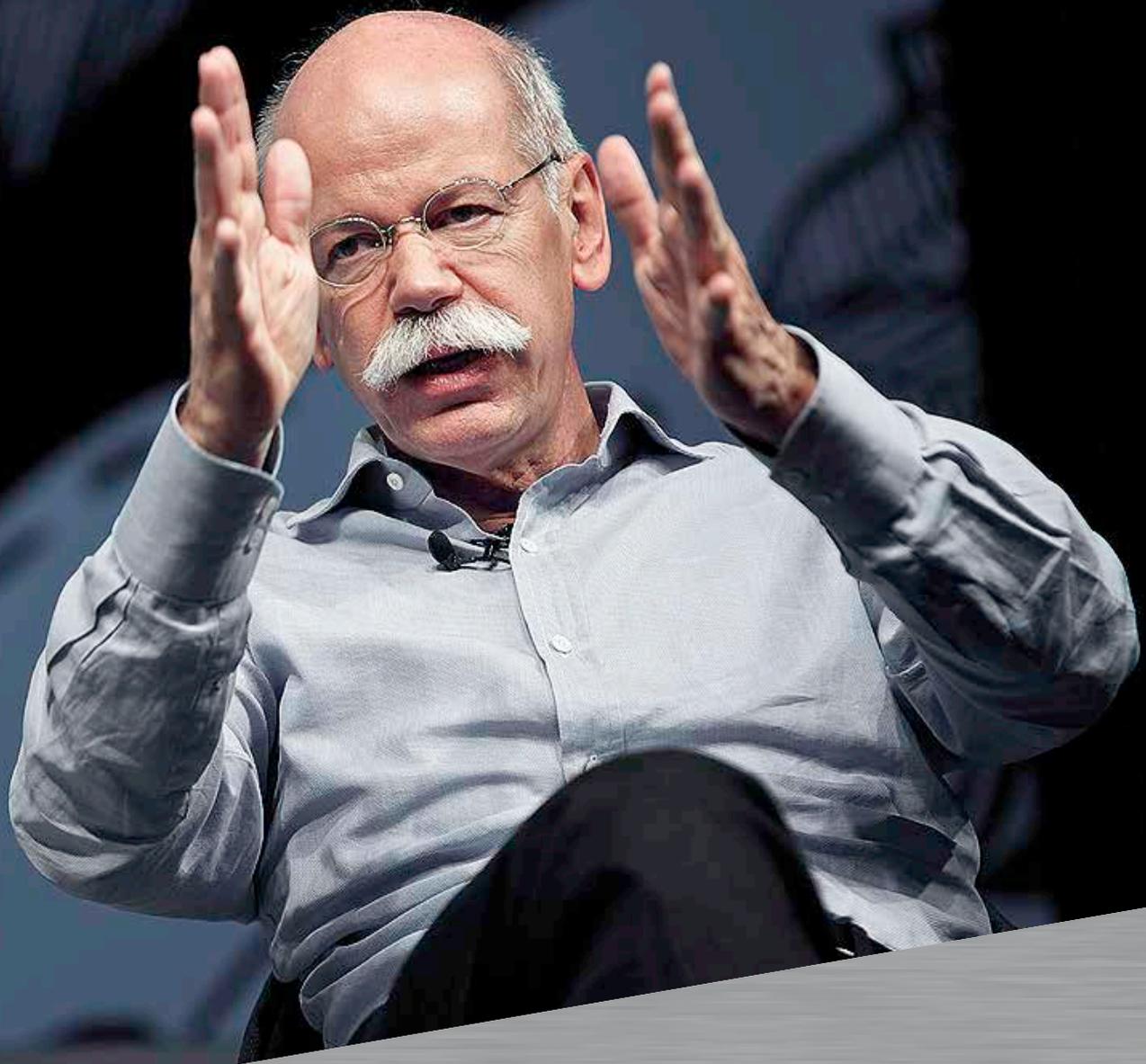
increase in **EBIT** adjusted for
special items to €14.2 billion

€3.25

proposed
dividend

+ 15%

€7.6 billion for
research and development



“To shape the future of mobility from a leading position, we started the biggest transformation in our company’s history in our best year to date.”

Stuttgart, February 2017



Dear Shareholders,

For your company, 2016 was the best year in its history of more than 130 years. Never before have more customers decided in favor of a vehicle from the Daimler Group: more than three million altogether. Revenue of 153.3 billion euros was three percent higher than in the previous year. We increased our EBIT adjusted for special items by 3 percent to 14.2 billion euros. On that basis, the return on sales in the automotive business was 9.4 percent. The bottom line is net profit of 8.8 billion euros. At the Annual Shareholders' Meeting, the Board of Management and the Supervisory Board will propose the distribution of a dividend of 3 euros and 25 cents per share.

These good figures are the result of the tremendous commitment of our 282,000 employees. I would like to thank them wholeheartedly on behalf of the entire Board of Management.

Let's have a look at the development of the individual divisions.

At **Mercedes-Benz Cars**, we sold 2.2 million cars – that's an increase of ten percent compared with the previous year and a new record. We are especially pleased that we achieved our target for 2020 already in 2016: Mercedes is once again at the top of premium segment also in terms of unit sales. Our strong products are an important reason for this dynamic sales performance. In 2016, we continued our model offensive – above all with the new E-Class. We made particular progress in China. Our development in Europe was also very positive. With all of this success, a crucial point is that we achieved our profitability target of ten percent return on sales.

Daimler Trucks defended its position in a difficult market environment last year. As the world's biggest manufacturer of trucks above six tons, we maintained our strong position in our core markets. But the positive impetus from Europe did not offset the negative development in Latin America, the NAFTA region and parts of Asia, so the division's total unit sales decreased. The new Freightliner Cascadia, which we presented in September, should help us to consolidate our strong market position in North America. The year's highlight at Daimler Trucks was the IAA Commercial Vehicles trade fair in Hanover, where we demonstrated our leading technological role – also in the field of electric mobility.

Daimler Buses' business was also affected by the difficult economic situation in Latin America. Nonetheless, we achieved a pleasing return on sales while defending, and in some cases strengthening, our market leadership in the markets important to us.

Mercedes-Benz Vans set new records for unit sales and earnings. Growth was primarily driven by the V-Class and Vito models. Both are now available also in China. The division's profit margin was also very satisfactory: Adjusted for special items, it was over ten percent. In 2017, we will close one of the last gaps in our portfolio: The X-Class, our new premium pickup, will be in the dealerships.

Daimler Financial Services posted another record year. Its return on equity was above the targeted level. For the first time, the number of vehicles on its books passed the mark of four million. The value of all financed or leased vehicles increased by almost 16 billion euros, partially due to the acquisition of the leasing specialist Athlon. With this investment, DFS is strengthening its position in the European fleet business.

The basis for all this success is the ability to reinvent ourselves time and again. In order to shape the future of mobility from a leading position, we started the biggest transformation in our company's history in our best year to date; because the automotive industry is facing several fundamental changes. Connectivity, autonomous driving, sharing and electric mobility – each of these topics has the potential to turn our industry upside down. Our ambition is clear: Daimler aims to lead in all four areas.

We have set the right course to do so. At Mercedes-Benz Cars, we will launch more than ten new electric cars by 2025. We are starting this year with the electric smart models. In addition, with the “EQ” brand, we are creating a complete electric-mobility ecosystem – from inductive charging to home energy storage. And we are also electrifying our commercial vehicles: Production of the eCanter light-duty electric truck starts already this year. By 2020, we will have developed a heavy-duty truck as far as series maturity with a range suitable for urban delivery. On the way towards the public transport of the future, we will launch an electric bus in 2018. Daimler will invest a total of ten billion euros in electric vehicles in the coming years.

But our concept of the mobility of the future goes far beyond the drive system. A key element is autonomous driving. We intend to strengthen our leading position in this field. We will also utilize the enormous potential offered by vehicles' digital connectivity. The car of tomorrow isn't just an office, but also a fitness coach and a personal assistant. Our vision of the truck of the future is that it's fully loaded, hardly ever stuck in a traffic jam and nearly always in use. At the same time, we are developing from being a van manufacturer into a provider of complete transport systems.

And we plan to further develop our mobility platforms at Daimler Financial Services. mytaxi is the biggest app-based taxi network in Europe. In the future, we intend to enter additional markets. car2go is the worldwide market leader for flexible car sharing. We plan to double the use of those cars and to launch new electric fleets in the coming years.

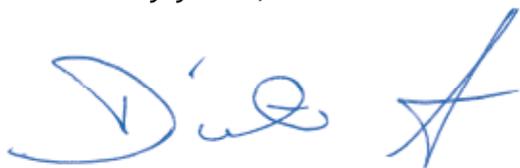
In order to forge ahead successfully with all of this, we are also reinventing our corporate culture; for example with faster decision making and more flexible forms of cooperation. And we are on the right track: I have never experienced such a positive and optimistic atmosphere at Daimler before.

At the same time, we are working continuously on establishing integrity and compliance even more firmly at the Group. In the past financial year, we were involved in some legal proceedings, in which we fully cooperated with the relevant authorities.

Although a number of political risks exist, the economic conditions suggest that 2017 will be a good year. Against this backdrop, we plan to increase our unit sales once again. Daimler Financial Services also aims to achieve further growth.

The future of mobility offers us plenty of opportunities. Daimler has the ideal strategy, the right products and technologies, and above all the right team to utilize those opportunities. We look forward to continuing this journey with you, our shareholders.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Dieter Zetsche', followed by a stylized flourish or mark.

Dieter Zetsche

We are steadily implementing our strategy

We aim to inspire our customers, to be the leaders in the area of technology and innovation, and to continue our profitable growth. We intend to shape the safe and sustainable individual mobility of the future with outstanding products and services and with pioneering innovations. In this way, we will create value – for our shareholders, our customers, our employees and society in general. To achieve those goals, we are pursuing a globally oriented technology and growth strategy. We passed some major milestones in the year under review – financial year 2016 was an overall success. That will be to the benefit also of our shareholders: through an attractive dividend and an attractive share price.

A | To Our Shareholders

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The Board of Management

The mobility of the future is connected, autonomous, flexible and electric. Each of these trends alone has the potential to revolutionize our entire industry. Real success will be the result of intelligently linking up all four areas. We are working hard on this, and are repositioning our company to make sure we succeed. We are pushing ahead with the start-up spirit of our founders, with pioneering products and with innovative business models.



Dieter Zetsche

63 | Chairman of the Board of Management, Head of Mercedes-Benz Cars, since February 10, 2017, also interim Head of Daimler Trucks and Buses, Appointed until December 2019



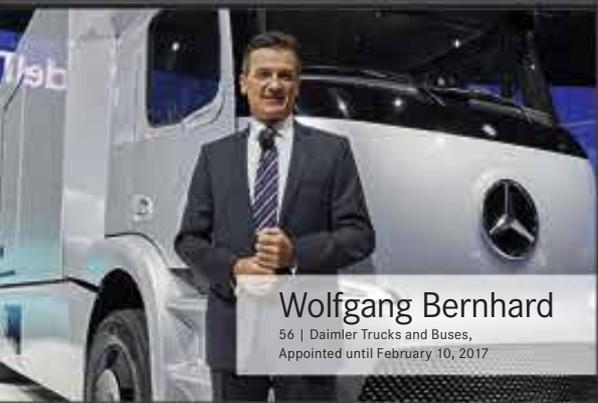
Ola Källenius

47 | Group Research & Mercedes-Benz Cars Development, Appointed until December 2022



Hubertus Troska

56 | Greater China, Appointed until December 2020



Wolfgang Bernhard
56 | Daimler Trucks and Buses,
Appointed until February 10, 2017



Renata Jungo Brüngger
55 | Integrity and Legal Affairs,
Appointed until December 2018



Wilfried Porth
58 | Human Resources and Director of Labor Relations,
IT & Mercedes-Benz Vans, Appointed until April 2022



Britta Seeger
46 | Mercedes-Benz Cars Marketing & Sales,
Appointed until December 2019



Bodo Uebber
57 | Finance & Controlling, Daimler Financial Services,
Appointed until Dezember 2019



Thomas Weber
62 | Group Research & Mercedes-Benz Cars Development,
Retired on December 31, 2016

Report of the Supervisory Board

Dear Shareholders, in a volatile market environment marked by growing political and economic challenges, Daimler AG concluded financial year 2016 with excellent earnings once again.

The transformation process initiated in the context of digitization in all of the divisions and in Daimler's corporate culture is fully supported by the Supervisory Board.

Supervisory and advisory activities of the Supervisory Board

The Supervisory Board of Daimler AG fully performed its tasks as defined by the law, the Company's Articles of Incorporation and rules of procedure. The Supervisory Board continually advised and supervised the Board of Management and provided support with strategically important issues relating to the Group's further development. The Supervisory Board examined whether the annual company and consolidated financial statements, the combined management report and the other financial reporting were in conformance with the applicable requirements. In addition, it approved numerous business matters for which its consent was required following careful reviews and consultations. Those matters included finance and investment planning, major capital changes at companies of the Group, key individual investments and the conclusion of contracts with particular importance for the Group, the further development of strategic programs in the various divisions and various cooperation projects around the world.

During the reporting period, the Board of Management regularly informed the Supervisory Board about all significant developments of the Group and the divisions. In addition, it continually provided information to it on all fundamental questions of corporate planning, including finance, investment, sales and personnel planning, current developments at the companies of the Group, the development of revenue and the situation of the Company and the divisions. Furthermore, the Board of Management reported to the Supervisory Board continually - and whenever appropriate also in comparison with competitors - on return on equity and the Group's liquidity situation, the development of sales and procurement markets, the overall economic situation and developments in the capital markets and the area of financial services. Additional topics included the further development of the product portfolio, securing the Group's long-term competitiveness, and the ongoing implementation of measures for safeguarding future-oriented and sustainable mobility. The Supervisory Board also dealt in detail with the development of the share price and the related background, as well as the expected impact of strategic projects on the share price.

Daimler works systematically on the implementation of its strategy and made further progress along its growth path also in the year 2016. Our divisions have extremely attractive and competitive products and services. The Group was very successful with them last year, also in sometimes difficult market situations. The Group's financial strength and sound balance sheet allow this growth strategy to be continued while paying out an attractive dividend to our shareholders. The automotive industry is faced with fundamental changes in the coming years. The future issues of digitization and electrification, as well as new services, will redefine mobility. Daimler intends to meet these challenges from a position of strength. For that purpose, large volumes of advance expenditure will be made also in the coming years. The transition from combustion engine to electric mobility must take place gradually and over the long term. With the presentation of important new products and concept vehicles, Daimler demonstrated in 2016 that it has great expertise in both of those technologies. At the same time, Daimler is working hard at all levels to further develop its corporate culture and to make it fit for the challenges of the future. The Supervisory Board fully supports all of these steps.

Working culture and areas of Supervisory Board activity

In the year 2016, the Supervisory Board convened for eight meetings and dealt intensively and comprehensively with the strategic and operating development of Daimler AG. Participation in the meetings by the members of the Supervisory Board was at a high level in the year 2016. All members of the Supervisory Board participated in significantly more than half of the meetings of the Supervisory Board and of its committees of which they are members in the year under review. The work of the Supervisory Board featured open and intensive exchanges of information and opinions. In each meeting, an executive session was arranged so that topics could be discussed also in the absence of the Board of Management. The members of the Supervisory Board and of the Board of Management came together for the bilateral exchange of opinions also outside the regular meetings. The members representing the employees and the members representing the shareholders regularly prepared the Supervisory Board meetings in separate discussions, which were attended by members of the Board of Management. The Board of Management informed the Supervisory Board with written reports about the most important indicators of business development and existing risks, and submitted the interim financial reports to the Supervisory Board. The members of the Supervisory Board independently attended such courses of training and further training regarded as necessary for the performance of their tasks, relating for



Dr. Manfred Bischoff, Chairman of the Supervisory Board

example to questions of corporate governance and changes in the legal framework, or to new products and future-oriented technologies. In a special onboarding program, new members of the Daimler Supervisory Board have the opportunity to meet the members of the Board of Management and other senior executives for a bilateral exchange of opinions and information on the current topics of the various Board of Management areas. The objective of this program is to provide the new members – outside of the regular meetings of the Supervisory Board – with an overview of the topics relevant to the Daimler Group.

In the meeting of the Supervisory Board in **early February 2016**, which was attended by the external auditors, the preliminary key figures of the annual company and consolidated financial statements for 2015 and the dividend proposal to be made at the 2016 Annual Shareholders' Meeting were discussed, taken note of and approved. The Supervisory Board determined that no objections were to be raised to their publication. The preliminary key figures for the year 2015 and the proposal on the appropriation of profit were announced at the Annual Press Conference on February 4, 2016.

In the Supervisory Board meeting held on **February 16, 2016**, the Supervisory Board first decided on the personnel changes in the Board of Management described on [page 70](#). Subsequently, it dealt with the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group for the year 2015, each of which had been issued with an unqualified audit opinion by the external auditors, as well as with the reports of the Audit Committee and the Supervisory Board, the corporate governance report, the remuneration report and the proposal on the appropriation of profit. In preparation, the members of the Supervisory Board were provided with comprehensive documentation.

The Audit Committee and the Supervisory Board dealt with those documents in detail and discussed them intensively in the presence of the external auditors, who reported on the results of their audit and were available to answer questions and to provide further information. Following the final results of the review by the Audit Committee and its own review, the Supervisory Board declared its agreement with the results of the audit carried out by the external auditors. It determined that no objections were to be raised, approved the financial statements and the combined management report as presented by the Board of Management, and thus adopted the financial statements for the year 2015. On this basis, the Supervisory Board consented to the proposal made by the Board of Management on the appropriation of distributable profit. In addition, the Supervisory Board approved the report of the Supervisory Board, the corporate government statement, the corporate governance report and the remuneration report, as well as its proposed decisions on the items of the agenda for the 2016 Annual Shareholders' Meeting.

Also in the meeting on February 16, 2016, the Supervisory Board received detailed information on the development of a local production facility of Mercedes-Benz Cars in Russia and granted its approval to the project. The Supervisory Board also approved a capital increase at the Group company Mercedes-Benz do Brasil Ltda. and a capital increase at the Chinese joint-venture company Beijing Benz Automotive Co., Ltd. for the expansion of engine production. Furthermore, the Supervisory Board consented to the submission of a binding offer by Toll Collect GmbH and other partners to the Federal Republic of Germany in the tendering procedure "Tolls on all Federal Highways." In addition, the Supervisory Board dealt with the impact of digitization on the automotive industry and with the Group's strategic initiatives until 2020, with which the increasing personnel requirement in the field of digitization is to be covered. Finally, the Supervisory Board dealt with questions of corporate governance and with matters pertaining to Board of Management remuneration. In addition, approval was granted for the other board memberships and sideline activities of the members of the Board of Management that were presented in the meeting.

One of the items on the agenda of the **Annual Shareholders' Meeting held on April 6, 2016** was the reelection of Petraea Heynike and Dr. Manfred Bischoff as members of the Supervisory Board representing the shareholders. After he was elected by the Annual Shareholders' Meeting, the Supervisory Board reelected Dr. Manfred Bischoff as the Chairman of the Supervisory Board of Daimler AG. In accordance with applicable regulations, the Chairman of the Supervisory Board is also a member of and Chairman of the Mediation Committee, the Presidential Committee and the Nomination Committee.

In another meeting held on **April 22, 2016**, the Supervisory Board dealt with the acquisition of the internationally active and manufacturer-independent fleet-management company Athlon Car Lease International B.V., and granted its approval for the project. Subsequently, the Supervisory Board received information on changes to insider laws resulting from the European Market Abuse Directive, which has been in force since July 3, 2016, and discussed the resulting specific effects and duties for the members of the Supervisory Board. The Supervisory Board also discussed the strategic background of the planned establishment of an engine and component plant for Mercedes-Benz Cars in Poland, which is intended to secure the division's projected unit sales in the medium and long term.

On **June 17, 2016**, the Supervisory Board held an extraordinary meeting to deal with the agreement to a settlement involving the payment of a fine in antitrust proceedings taken by the European Commission against European truck manufacturers, including Daimler. Following detailed discussion of the advantages and disadvantages and under consideration of detailed legal expertise, the Supervisory Board consented to a settlement agreement under the conditions negotiated with the European Commission. Furthermore, the Supervisory Board approved in this meeting the contribution of Daimler's shares in Renault and Nissan into the German pension plan assets, in order to improve the funded status of the company's retirement provision.

Supervisory Board meeting outside Germany

On **July 20 and 21, 2016**, the Supervisory Board had the opportunity to deal in detail with the strategy of Daimler Trucks North America (DTNA) in Portland, Oregon, USA. In view of the importance of the North American market, the Supervisory Board convened at the new headquarters of DTNA for an intensive two-day program in order to discuss current developments and strategic perspectives with the members of the Board of Management and local employees. The focus points included the sales markets of North America, the product portfolio of Daimler Trucks and the technological transformation that is opening up new business models also with commercial vehicles.

Another regular meeting of the Supervisory Board was also held in Portland. In that meeting, the Supervisory Board first decided on the appointment of Britta Seeger as a member of the Board of Management responsible for Mercedes-Benz Cars Sales and succeeding to Ola Källenius, effective January 1, 2017. After discussing the course of business and the results of the first half of the year, the Supervisory Board received information on the planned expansion of the global production network of Mercedes-Benz. The Supervisory Board approved the investment in a new plant with highly flexible production at the Group's site in Kecskemét, Hungary. An ultramodern and efficient facility is to be established there with flexible production of various vehicle models. The Supervisory Board was also informed about the business model of the Group company Mercedes-Benz Grand Prix Ltd. Finally, the Supervisory Board dealt with the latest developments in the diesel issue.

Strategy meeting of the Supervisory Board

During a two-day strategy workshop at several locations in the Stuttgart region in **September 2016**, the Supervisory Board was informed about the enormous changes facing the automotive industry: from combustion engines to electric motors, from owning to sharing, from human-controlled vehicles to autonomous driving. One of the points focused on in the discussion with the Board of Management was the changing competitive environment, in which traditional automobile competitors are being joined by new competitors that offer mobility services through digital channels, and which could therefore challenge the existing business model. In a constructive and open dialog, the members of the Supervisory Board and of the Board of Management discussed how Daimler will approach these new challenges.

Another important point of discussion was Initiative Leadership 2020, and thus the question of how the leadership model and leadership culture at Daimler can be developed further in a sustainable way, namely, by the employees themselves. The Supervisory Board also dealt with the further development of the global logistics network for the supply of spare parts, and approved the expansion of warehouse space at the European locations.

The Supervisory Board also discussed in detail and with the involvement of external legal experts the consequences of the antitrust proceedings taken against truck manufacturers by the European Commission. These proceedings were concluded in July 2016 with the imposition of a fine by the European Commission. Like Daimler, other manufacturers have also decided to cooperate fully with the authorities and their proceedings have meanwhile also been concluded. The Supervisory Board and the Board of Management are of the opinion that cooperation with the authorities and the settlement of the proceedings by mutual agreement were in Daimler's interest, in order to avoid lengthy litigation and ultimately a possibly higher fine. Nonetheless, immediately after the announcement of the accusations of the European Commission in 2011, the Supervisory Board commissioned an independent law firm to clarify, in accordance with its statutory responsibilities, whether claims for compensation were to be made against former or current members of the Board of Management. On the basis of the so far commissioned and repeatedly updated reviews and investigations, as well as detailed discussions in the Supervisory Board taking into account the welfare of the Company, the Supervisory Board did not so far see sufficient basis to claim compensation from former or current members of the Board of Management, in each case based on the information available.

Meeting on operational planning 2017/2018

On the day before the meeting in December 2016, the members of the Supervisory Board were occupied with new vehicle models, design studies and forward-oriented technologies. In the context of the actual meeting on **December 8, 2016**, the Supervisory Board first decided on the proposal described on [page 70](#) to be made at the Annual Shareholders' Meeting in 2017 for the election of a member of the Supervisory Board. During the further course of the meeting and on the basis of comprehensive documentation, the Supervisory Board discussed in detail and approved the operational planning for the years 2017 and 2018. This included discussion of existing opportunities and risks as well as the Group's risk management.

The Supervisory Board also discussed in detail - against the background of the increasing electrification of automotive drivetrains - the international production strategy for high-voltage batteries and approved the sites proposed for future battery production. Subsequently, the Supervisory Board dealt with the question of allowing additional partner companies to acquire shares in the digital mapping company HERE, with the goal of positioning an independent, globally leading and neutral platform for location-based mobility services based on networked vehicles. To this effect, the Supervisory Board approved the sale of shares to two additional international cooperation partners. Furthermore, the Supervisory Board once again received information on the status of litigation, investigations and consultations with the authorities in connection with the diesel issue. Other topics discussed at the December meeting were corporate governance, also with regard to the recommendations of the German Corporate Governance Code, and Board of Management remuneration. Finally, the Supervisory Board dealt with the probable main topics of the year 2017.

Corporate governance and declaration of compliance

During the year 2016, the Supervisory Board was continually occupied with the standards of good corporate governance.

The members of the Supervisory Board of Daimler AG are obliged to disclose conflicts of interest - especially those that might arise due to an advisory or board function for a customer, supplier or creditor of Daimler or for other third parties - to the entire Supervisory Board. There were no indications of any actual conflicts of interest in 2016. Dr. Bernd Bohr was a member of and chairman of the supervisory board of Knorr Bremse AG from March 11 until July 4, 2016. During that period, the Supervisory Board did not deal with any matters that could have given rise to a conflict of interest. In order to avoid individual conflicts of interest, some members of the Supervisory Board did not participate in discussions of certain items of the agendas in the year 2016. As a precautionary measure and in view of his position as chairman of the supervisory board of Siemens AG, Joe Kaeser did not participate in the consultations and decision on the involvement of Toll Collect in the new tender for toll collection on highways in the Federal Republic of Germany on February 16, 2016. Furthermore, on April 21, 2016, Dr. Bernd Bohr, Dr. Jürgen Hambrecht and Dr. Bernd Pischetsrieder did not participate in the joint preliminary discussions of the members representing the employees and the shareholders concerning the "status update on the diesel issue" and left the meeting room on July 21 and on December 8, 2016 during the discussion of the related items of the agenda. As a result, for at least half of the members representing the shareholders, there were no potential conflicts of interest during the year under review.

The Supervisory Board is convinced that effective work in the Supervisory Board in terms of good corporate governance requires two things: On the one hand, its members must have high levels of specialist expertise. On the other hand, diversity amongst the members in terms of internationality, gender, experience and cultural background must reflect the Group's size and internationality. Both of these requirements are fulfilled at Daimler.

Also in December, the Supervisory Board approved the 2016 declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). With the exceptions explained in the declaration, all the recommendations of the Code have been complied with and continue to be complied with.

In the year 2016, the Supervisory Board once again arranged for an externally moderated efficiency review to be carried out, thus fulfilling the requirement to carry out a regular efficiency review as called for by the Articles of Incorporation and the German Corporate Governance Code. The results of the efficiency review, which the Supervisory Board dealt with intensively in its meeting on February 10, 2017, indicate very good and constructive cooperation within the Supervisory Board and with the Board of Management. No fundamental need for action or change was apparent but some individual suggestions were made, which were implemented.

Law on the equal participation of women and men in management positions

For supervisory boards of listed companies subject to parity codetermination, like that of Daimler AG, the German Stock Corporation Act prescribes a binding gender ratio of at least 30% women. The ratio is to apply to the entire supervisory board. If the side of the supervisory board representing the shareholders or the side representing the employees objects to the chairman of the supervisory board before the election 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.

In the Supervisory Board of Daimler AG, the proportion of 30% women is fulfilled on the shareholder side as of December 31, 2016 by the members Sari Baldauf, Andrea Jung and Petraea Heynike. On the employee side, the proportion of women as of that date is 20% with the members Elke Tönjes-Werner and Sibylle Wankel. In its meetings on December 8, 2016, and February 10, 2017, the Supervisory Board dealt with the specific proposals for candidates for election to be made at the Annual Shareholders' Meeting in 2017, and, against this backdrop, stated that the shareholder side and the employee side should separately achieve the legally prescribed proportion of women. The members representing the shareholders stated in both meetings that they object to the overall fulfilment of the statutory gender quota. Subsequently, the Supervisory Board decided to propose the election to the Supervisory Board of Dr. Clemens Börsig and Bader Mohammad Al Saad at the Annual Shareholders' Meeting in 2017. The next election to the Supervisory Board of members representing the employees will take place in 2018.

In its meeting in December, the Supervisory Board updated the rules of procedure of the Supervisory Board and its committees. As before, the Supervisory Board specified the goal for the composition of the Board of Management of at least 12.5% female members, applicable until December 31, 2020.

Corporate governance at Daimler is described in detail in the corporate governance report on [pages 207 ff](#) and in the remuneration report on [pages 142 ff](#) of this Annual Report.

The work of the committees

The **Presidential Committee** convened six times last year. It dealt primarily with corporate governance topics and questions Board of Management. As in previous years, compliance targets constituted part of the individual target agreements of the members of the Board of Management. Once again, additional non-financial targets were also included as criteria in the target agreements. For the past financial year, they were the further development and permanent establishment of the corporate value integrity, diversity, the maintenance and enhancement of a high level of employee satisfaction, and high product quality.

The **Audit Committee** met six times in 2016. Details of those meetings are provided in a separate report of that committee on [pages 204 ff](#).

The **Nomination Committee** prepared recommendations for the Supervisory Board's proposals to the Annual Shareholders' Meeting in 2017 on the candidates for election to the Supervisory Board. The proposals on the election of Dr. Clemens Börsig and Bader Mohammad Al Saad take into consideration, apart from the qualifications defined for each position, the recommendations of the German Corporate Governance Code.

There was no occasion to convene the **Mediation Committee** in 2016.

Personnel changes in the Supervisory Board and the Board of Management

On April 6, 2016, the Annual Shareholders' Meeting elected Petraea Heynike and Dr. Manfred Bischoff as members of the Supervisory Board representing the shareholders until the end of the Annual Shareholders' Meeting that decides on ratification of actions for the year 2020. The election proposal made by the Supervisory Board to the Annual Shareholders' Meeting was based on a recommendation made by the Nomination Committee. Effective August 25, 2016, Sibylle Wankel was appointed by the court to the Supervisory Board as a member representing the employees, after Dr. Sabine Maaßen had stepped down from the Supervisory Board as of June 30, 2016.

In the Supervisory Board meeting on February 16, 2016, Dr. Dieter Zetsche was reappointed as the Chairman of the Board of Management and Head of Mercedes-Benz Cars for a further three years as of January 1, 2017. In addition, the Supervisory Board decided in this meeting to assign Board of Management responsibility for Group Research & Mercedes-Benz Cars Development to Ola Källenius as of January 1, 2017. He will thus succeed to Prof. Dr. Thomas Weber, who stepped down from his position as a member of the Board of Management of Daimler AG after 14 years on December 31, 2016.

In the Supervisory Board meeting on July 21, 2016, the Supervisory Board appointed Britta Seeger as a member of the Board of Management for a period of three years starting on January 1, 2017. Britta Seeger took over responsibility for Mercedes-Benz Cars Sales from Ola Källenius. In addition, the appointment of Wilfried Porth as a member of the Board of Management with responsibility for Human Resources and Director of Labor Relations, IT & Mercedes-Benz Vans was extended by five years until April 30, 2022.

In the meeting on December 8, 2016, the members of the Supervisory Board representing the shareholders decided on the basis of a recommendation by the Nomination Committee to propose the reelection to the Supervisory Board of Dr. Clemens Börsig at the Annual Shareholders' Meeting in 2017.

In the Supervisory Board meeting on February 10, 2017, Ola Källenius was reappointed to the Board of Management of Daimler AG as the member responsible for Group Research & Mercedes-Benz Cars Development for a further five years as of January 1, 2018.

In advance of this meeting, Dr. Wolfgang Bernhard, Board of Management Member responsible for Daimler Trucks and Buses appointed until February 2018, stated that he would not be available for an extension of his contract beyond that date. The Supervisory Board regretted this decision, thanked Dr. Wolfgang Bernhard for his committed work, and respected his personal decision. The appointment of Dr. Wolfgang Bernhard was terminated with effect as of midnight on February 10, 2017. Board of Management Chairman Dr. Dieter Zetsche has taken over as Head of Daimler Trucks and Buses until a successor is appointed.

Also in the meeting on February 10, 2017, the members of the Supervisory Board representing the shareholders decided on the basis of a recommendation by the Nomination Committee to propose to the shareholders at the 2017 Annual Shareholders' Meeting that Bader Mohammad Al Saad be elected as a member of the Supervisory Board. In the interests of the Company, Dr. Bernd Bohr has announced that he will step down from the Supervisory Board at the end of the 2017 Annual Shareholders' Meeting. The Supervisory Board has declared its intention to reelect Dr. Bernd Bohr to the Supervisory Board within the next two years.

Audit of the company and consolidated financial statements

The financial statements of Daimler AG and the combined management report for the Company and the Group for 2016 were duly audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and were given an unqualified audit opinion. The same applies to the consolidated financial statements for 2016 prepared according to IFRS.

In a meeting in early February 2017 attended by the external auditors, the Supervisory Board discussed, took note of and approved the preliminary key figures of the annual company and consolidated financial statements for 2016 and the dividend proposal to be made at the 2017 Annual Shareholders' Meeting. The Supervisory Board determined that no objections were to be made to their publication. The preliminary key figures for the year 2016 were announced at the Annual Press Conference on February 2, 2017.

In the meeting on February 10, 2017, the Supervisory Board dealt with the annual company financial statements, the annual consolidated financial statements and the combined management report for Daimler AG and the Daimler Group, each of which had been issued with an unqualified audit opinion by the external auditors, as well as with the reports of the Audit Committee and the Supervisory Board, the corporate government statement, corporate governance report, remuneration

report and the proposal on the appropriation of profit. In preparation, the members of the Supervisory Board had been provided with comprehensive documentation including the Annual Report with the consolidated financial statements according to IFRS, the combined management report for Daimler AG and the Daimler Group, the corporate governance statement, the corporate governance report and the remuneration report, the annual company financial statements of Daimler AG, the proposal of the Board of Management on the appropriation of profit, the audit reports of KPMG on the annual company financial statements of Daimler AG and the consolidated financial statements, each including the combined management report, as well as drafts of the reports of the Supervisory Board and of the Audit Committee.

The Audit Committee and the Supervisory Board dealt with those documents in detail and discussed them intensively in the presence of the responsible external auditors, who reported on the results of their audit and were available to answer supplementary questions and to provide additional information. Following the final results of the review by the Audit Committee and its own review, the Supervisory Board declared its agreement with the results of the audit by the external auditors; it determined that no objections were to be raised and approved the financial statements and the combined management report as presented by the Board of Management. The company financial statements of Daimler AG for the year 2016 were thereby adopted. On this basis, the Supervisory Board consented to the proposal made by the Board of Management on the appropriation of distributable profit. Furthermore, it approved the report of the Supervisory Board, the corporate governance report and the remuneration report, as well as its own proposed decisions on the items of the agenda for the 2017 Annual Shareholders' Meeting.

Appreciation

The Supervisory Board warmly thanks all of the employees and the management of the Daimler Group for their committed contributions to the very successful year 2016.

Special thanks are due to Prof. Dr. Thomas Weber, who served with great passion for many years as the member of the Board of Management for Group Research and Mercedes-Benz Cars Development. He had a lasting impact on Daimler AG and contributed significantly to the Group's current success. His membership of the Board of Management ended as planned on December 31, 2016. We also thank Dr. Sabine Maaßen, who closely accompanied the company through her committed work in the Supervisory Board and Audit Committee, and who stepped down on June 30, 2016.

Stuttgart, February 2017

The Supervisory Board



Dr. Manfred Bischoff
Chairman

The Supervisory Board

Dr. Manfred Bischoff

Munich

Chairman of the Supervisory Board of Daimler AG
elected until 2021

Other supervisory board memberships/directorships:
SMS Holding GmbH

Michael Brecht*

Gaggenau

Chairman of the General Works Council, Daimler Group
and Daimler AG;

Chairman of the Works Council, Gaggenau Plant, Daimler AG;

Deputy Chairman of the Supervisory Board of Daimler AG
elected until 2018

Dr. Paul Achleitner

Munich

Chairman of the Supervisory Board of Deutsche Bank AG
elected until 2020

Other supervisory board memberships/directorships:
Deutsche Bank AG – Chairman
Bayer AG

Sari Baldauf

Helsinki

Former Executive Vice President and General Manager
of the Networks Business Group of Nokia Corporation
elected until 2018

Other supervisory board memberships/directorships:
Fortum OYj – Chairwoman
Deutsche Telekom AG
AkzoNobel N.V.
Vexve Holding OY – Chairwoman

Michael Bettag*

Nuremberg

Chairman of the Works Council of the Nuremberg Dealership,
Daimler AG
appointed until 2018

Dr. Bernd Bohr

Stuttgart

Former Member of the Management Board
of Robert Bosch GmbH
elected until 2019

Other supervisory board memberships/directorships:
Formel D GmbH

Dr. Clemens Börsig

Frankfurt am Main

Chairman of the Board of Directors
of Deutsche Bank Foundation
elected until 2017

Other supervisory board memberships/directorships:
Linde AG
Bayer AG
Emerson Electric Co.

Dr. Jürgen Hambrecht

Ludwigshafen

Chairman of the Supervisory Board of BASF SE
elected until 2018

Other supervisory board memberships/directorships:
BASF SE – Chairman
Fuchs Petrolub SE – Chairman
Trumpf GmbH + Co. KG – Chairman
Nyxoah SA

Petraea Heynike

Vevey

Former Executive Vice President of the Executive Board
of Nestlé S.A.
elected until 2021

Other supervisory board memberships/directorships:
Schulich School of Business
Aiglon College

Andrea Jung

New York

President and Chief Executive Officer of Grameen America, Inc.
elected until 2018

Other supervisory board memberships/directorships:
Apple Inc.
General Electric Company

Joe Kaeser

Munich

Chairman of the Board of Management of Siemens AG
elected until 2019**Other supervisory board memberships/directorships:**Allianz Deutschland AG
NXP Semiconductors N.V.**Ergun Lümali***

Sindelfingen

Chairman of the Works Council at the Sindelfingen Plant;
Deputy Chairman of the General Works Council of Daimler AG
elected until 2018**Wolfgang Nieke***

Stuttgart

Chairman of the Works Council, Untertürkheim Plant,
Daimler AG
elected until 2018**Dr. Bernd Pischetsrieder**

Munich

Chairman of the Supervisory Board of the Münchener
Rückversicherungs-Gesellschaft, Aktiengesellschaft
in München
elected until 2019**Other supervisory board memberships/directorships:**Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München – Chairman
Tetra Laval Group**Valter Sanches***

Geneva

General Secretary
IndustriALL Global Union
elected until 2018**Jörg Spies***

Stuttgart

Chairman of the Works Council, Headquarters, Daimler AG
elected until 2018**Elke Tönjes-Werner***

Bremen

Deputy Chairwoman of the Works Council, Bremen Plant,
Daimler AG
elected until 2018**Sibylle Wankel***

Frankfurt am Main

General Counsel of the German Metalworkers' Union
(IG Metall)

(since August 25, 2016)

appointed until 2018

Other supervisory board memberships/directorships:

Siemens AG

Dr. Frank Weber*

Sindelfingen

Director of the Press Shop, Sindelfingen Plant, Daimler AG;
Chairman of the Management Representatives Committee,
Daimler Group
elected until 2018**Roman Zitzelsberger***

Stuttgart

German Metalworkers' Union (IG Metall),

District Manager Baden-Württemberg

appointed until 2018

Other supervisory board memberships/directorships:

Heidelberger Druckmaschinen AG

Retired from the Supervisory Board:**Dr. Sabine Maaßen***

Frankfurt am Main

General Counsel of the German Metalworkers' Union
(IG Metall)

(retired on June 30, 2016)

Committees of the Supervisory Board:**Committee pursuant to Section 27 Subsection 3
of the German Codetermination Act (MitbestG)**

Dr. Manfred Bischoff – Chairman

Michael Brecht*

Dr. Jürgen Hambrecht

Roman Zitzelsberger*

Presidential Committee

Dr. Manfred Bischoff – Chairman

Michael Brecht*

Dr. Jürgen Hambrecht

Roman Zitzelsberger*

Audit Committee

Dr. Clemens Börsig – Chairman

Michael Brecht*

Joe Kaeser

Ergun Lümali* (since July 1, 2016)

Dr. Sabine Maaßen* (until June 30, 2016)

Nomination Committee

Dr. Manfred Bischoff – Chairman

Dr. Paul Achleitner

Sari Baldauf

* Representative of the employees



The New E-Class Masterpiece of Intelligence

The new E-Class: The most intelligent business sedan

Mercedes-Benz has taken a major step into the future with the new E-Class, which had its world premiere in January 2016 at the North American International Auto Show in Detroit under the motto "Masterpiece of Intelligence." The tenth generation of the business sedan sends a strong message with its clear yet emotive design and an exclusive and high-quality interior. The new E-Class also features numerous technological innovations that were premiered in the new model. These innovations allow safe and comfortable driving at a previously unattained level, as well as providing new dimensions of driver assistance.

nce



Highlights of 2016

Daimler successfully continued its strategy of profitable growth in 2016. The most important factor in the Group's success is our attractive and innovative range of products and services, which we systematically renewed and expanded at all divisions. Our most important new model was the new E-Class, the world's most intelligent business sedan. We also enhanced our leading position in the area of autonomous driving with the introduction of innovative assistance systems. Our groundbreaking role in this field is underscored by our cutting-edge Mercedes-Benz research vehicles – the Concept EQ, the Future Bus, the Urban eTruck and the Vision Van. As a pioneer, we are developing outstanding innovations for the future of mobility. We are also moving ahead with the systematic digitization of our products and the entire company, thus laying the foundation for ongoing success in the future.

Q1



Daimler invests in battery production

Daimler plans to invest a total of €1 billion in its global battery production network. Production capacity for lithium-ion batteries is to be significantly expanded at Daimler's Deutsche Accumotive subsidiary in Kamenz, Germany. Approximately €500 million will be invested in a second battery factory, where production of lithium-ion batteries for Mercedes-Benz and smart hybrid and electric vehicles is scheduled to begin in the spring of 2017.

Passenger-car production launched in Brazil

The new plant in Itapetininga is a key component of the "Mercedes-Benz 2020" growth strategy. The facility will initially manufacture the C-Class sedan, which will later be followed by the GLA compact SUV.

Autonomous driving in a convoy

Daimler Trucks presents a new dimension of autonomous driving: The Highway Pilot Connect system enables several semitrailer rigs driving in automated mode to be linked in a "platoon." This setup offers impressive benefits, including up to 7% in fuel savings, a 50% reduction in required road space and a significantly higher level of safety.

Daimler Financial Services named Germany's best employer in 2016

The financial services division of the Daimler Group takes first place in the category "2,000 to 5,000 employees" in this year's competition run by the independent Great Place to Work Institute, which honors companies that have an especially attractive workplace culture. The evaluation is based on anonymized employee surveys and assessments of the quality of the companies' human resources and management work.

New regional centers for commercial vehicles

Two new regional centers in Africa and another in Southeast Asia are opened for the sales and service of our commercial vehicles. The center for South Asia follows in May 2016. This means that the realignment of sales and service activities has been completed within seven months. We are now even closer to our customers in key growth regions.

Three-millionth Mercedes-Benz Sprinter delivered

Mercedes-Benz Vans has now delivered three million units of its Sprinter "global van" to customers since the model's market launch in 1995. The large van is now on the road in more than 130 countries.

Q2

Annual Shareholders' Meeting approves Daimler's highest-ever dividend of €3.25 per share

Approximately 5,500 shareholders attend the Daimler AG Annual Shareholders' Meeting at the CityCube in Berlin on April 6. Daimler is the first DAX-listed company to offer its shareholders a mobile ticket that can be sent to their smartphones.

World's biggest Mercedes me Store opens in Beijing

Along with an interactive brand experience, the store in the trendy Sanlitun neighborhood boasts ultramodern architecture and high-class catering. It also serves as a venue for numerous events. Beijing is now the sixth city with a Mercedes me Store – after Hamburg, Milan, Tokyo, Hong Kong and Munich (see photo below).

car2go launched in China

car2go establishes its first location in Asia in Chongqing, a huge metropolis of 30 million inhabitants in central China. The Daimler subsidiary thus becomes the first international Western company to implement the concept of spontaneous car sharing mobility in China. car2go, which uses the additional brand designation of JiXing (“drive off immediately”) in Chongqing, initially launches operations with around 400 smart fortwo models.

Fleet test with FUSO Canter E-Cell

In Germany, Daimler Trucks starts its first fleet test with locally emission-free electric trucks. Five battery-powered FUSO Canter E-Cell trucks are tested in the coming months by the City of Stuttgart and the logistics company Hermes.

New engine plant in Poland

Daimler will invest approximately €500 million in a new production facility in Poland that will create several hundred new jobs. Plans call for four-cylinder gasoline and diesel engines for Mercedes-Benz cars to be built at the plant in Jawor.

DigitalLife Day 2016 – Daimler is shaping the digital transformation

Some 500 employees from numerous departments and Group locations attend the event with the motto “Information, Inspiration, Innovation.” DigitalLife Day 2016 focuses on the Group's digital strategy and on presentations by internal and external experts. As was the case in the previous year, when the event took place for the first time, an employee competition for ideas related to digitization is also held in 2016.

Daimler strengthens its pension fund

The Board of Management of Daimler AG approves the allocation of approximately €1.8 billion to the pension fund. This is carried out by contributing the shares in Renault S. A. and Nissan Motor Co. Ltd. into the Daimler AG pension-plan assets.

Daimler continues along successful path

Daimler finishes the second quarter with new records for unit sales and adjusted EBIT. For full-year 2016, Daimler continues to anticipate a slight increase in EBIT adjusted for special items.



Q3

Greater flexibility with mobile working

Daimler implements a new and expanded policy on mobile working in order to improve the work-life balance of its employees. The policy stipulates that all Daimler AG employees have the right to work outside the office if such a format is compatible with the task at hand. Daimler operates many initiatives designed to further improve its employees' work-life balance and to develop a new management culture more firmly based on trust and the personal responsibility of both executives and employees.

Daimler presents the city bus of the future

The Mercedes-Benz Future Bus with CityPilot drives in partially autonomous mode for the first time on a Bus Rapid Transit (BRT) line of approximately 20 kilometers in Amsterdam. The bus drives at speeds up to 70 km/h, stops exact to one centimeter at bus stops and traffic lights, brakes for obstacles and pedestrians and communicates with traffic signals. Daimler Buses is the world's first bus manufacturer to drive a city bus in a partially automated mode on a BRT route.

Daimler presents numerous new products and services at the IAA Commercial Vehicles Show

The Daimler commercial vehicle brands underscore the pioneering role they play in connectivity, efficiency and safety by presenting a wide range of new products and services at the 66th IAA Commercial Vehicles Show. Among other things, the Mercedes-Benz Urban eTruck, the Future Bus and the Vision Van offer a preview of the future of the transport industry.

Daimler Trucks presents the new Freightliner Cascadia

The new Cascadia sets standards for connectivity, fuel efficiency and safety. A new, exclusive connectivity platform allows automated analyses of efficiency and safety. The aerodynamic shape and ultramodern drive components help to achieve fuel consumption up to 8% lower than that of the predecessor model.

Paris Motor Show: focus on electric mobility

The Mercedes-Benz Cars presentation at the Paris Motor Show focuses on electric mobility and the digital transformation. The Concept EQ from Mercedes-Benz, which offers a preview of an all-new generation of battery-electric vehicles, has its world premiere in Paris. Other models debuting in Paris are the electric drive versions of the new smart fortwo, the smart fortwo cabrio and, for the first time as an electric model, the smart forfour.

Sales milestone for smart: two million urban microcars sold

Since its market launch in 1998, the trendy city car has enjoyed great success as both a private and a fleet vehicle. And since 2008, it has also been hugely successful as a vehicle perfectly tailored to the car2go car sharing program. The smart brand has always played a pioneering role in the automotive industry in terms of mobility services and customization options, and continually redefines urban mobility.



Q4



car2go passes the two-millionth customer mark

The car sharing company extends its market leadership in Europe and around the world, and now has more than two million registered users worldwide. One of the company's 14,000 vehicles at 30 locations around the world is used every 1.5 seconds.

Investment in the future: approximately 1,900 young men and women begin their training at Daimler

Some 1,900 teenagers and young adults once again begin a training program at Daimler or a course of study at the Cooperative State University in 2016. The Group is now training a total of approximately 6,300 young men and women in Germany. This means that Daimler accounts for more than one third of all training positions in the German automotive industry.

Mercedes-Benz presents Concept X-CLASS

Mercedes-Benz Vans is expanding its product range to include another model series and will become the first premium automaker to enter the segment for mid-size pickups. The new pickup model is scheduled to be launched at the end of 2017 under the name Mercedes-Benz X-Class. The key markets for the new model will be Europe, Argentina, Brazil, South Africa, Australia and New Zealand.

Daimler improves its credit rating

Standard & Poor's Global Ratings agency (S&P) raises its credit rating for Daimler AG from A- to A on November 2, 2016, and also upgrades the company's short-term rating from A-2 to A-1. The ratings outlook for the company remains unchanged at "stable." S&P cites the greater competitiveness of our Mercedes-Benz Cars division especially as the reason for its ratings decision.

Daimler Financial Services acquires Athlon

Daimler Financial Services acquires Athlon Car Lease International B.V. It is planned to operate Daimler's entire fleet-management business under the Athlon brand. This will create a strong competitor in the European fleet management sector with a portfolio consisting of approximately 360,000 cars and vans.

High-performance charging network for electric vehicles

Daimler AG, the BMW Group, Ford Motor Company and the Volkswagen Group with Audi and Porsche plan to establish a joint venture to create the most effective charging network for electric vehicles in Europe. All the partners have signed a memorandum of understanding to this end. The goal is to significantly improve the travel range of battery-electric vehicles by establishing a full-coverage network.

Daimler and the Capital Market

There was a generally positive tendency on global stock markets in 2016, although they remained volatile. Announcements by central banks around the world continued to have a pronounced influence on investor behavior. Despite a very attractive dividend yield, Daimler's share price declined by 9% over the year 2016, although it did recover in the second half of the year with a significant gain of 32%. The Board of Management and the Supervisory Board will propose to the Annual Shareholders' Meeting that a dividend of €3.25 (2015: €3.25) per share be paid for 2016.

A.01

Development of Daimler's share price and of major indices

	End of 2016	End of 2015	16/15 % change
Daimler share price (in euros)	70.72	77.58	-9
DAX 30	11,481	10,743	+7
Dow Jones Euro STOXX 50	3,291	3,268	+1
Dow Jones Industrial Average	19,763	17,425	+13
Nikkei	19,114	19,034	+0
Dow Jones STOXX Auto Index	543	566	-4

A.02

Key figures per share

	2016	2015	16/15 % change
Amounts in euros			
Net profit	7.97	7.87	+1
Dividend	3.25	3.25	0
Equity (December 31)	54.17	50.06	+8
Xetra price at year end ¹	70.72	77.58	-9
Highest ¹	73.64	95.79	-23
Lowest ¹	51.97	63.26	-18

¹ Closing prices

Generally positive tendency on global stock markets

Global stock markets began the year 2016 with substantial losses, recording the worst start of a year in decades in the period until mid-February. Investors were initially concerned about the economic situation in China and, for the first time, in the United States as well. The ongoing decline in raw material prices added to this uncertainty. However, share prices then rose for a period, with this positive development largely due to the expansionary monetary policy of the European Central Bank (ECB) and indications by the US Federal Reserve that a course of rather moderate interest rate increases would be pursued in the United States. In the months that followed, reserved financial reports from European companies and discussions in the run-up to the Brexit referendum in the United Kingdom put a damper on investors' willingness to take risks. Share prices fell sharply in June after the British vote to leave the European Union. However, markets quickly recovered after that and even went on to post substantial gains. Automotive stocks, which had come under pressure during the course of the year, were able to rally and post significant gains once again. Nevertheless, expectations regarding the future behavior of central banks worldwide remained very much on investors' minds. After a phase of varied development, the looming election in the United States in November began influencing the performance of global stock markets. More specifically, market fluctuations and volatility increased significantly, and automotive stocks were also affected by this development. The result of the US election led to a brief period of uncertainty, after which the major markets in the United States, Europe and Japan began recording gains once again. The ECB's announcement that it would continue its government-bond purchasing program until the end of 2017 led to additional market gains in December.

The index of the most important shares in the euro zone, the Dow Jones Euro STOXX 50, rose by 1% in 2016. With a rise of 7%, the DAX, Germany's leading index, performed significantly better. In Japan, the Nikkei index closed with a slight increase over the full year, while in the United States the Dow Jones reached an all-time high of 19,975 in December and recorded a 13% increase for 2016 as a whole. [➔ A.01](#)

Daimler share price down by 9% over the year

On January 4, 2016, the Daimler share price reached €73.64, which was its peak for the year. The year 2016 began with declining share prices on global markets. Daimler shares were also affected by this development. However, the ongoing product offensive and our relatively good sales development compared to our competitors led our share price to increase once again in February and March. The development of our share price was also positively impacted by the Daimler's announcement that it would significantly increase the dividend to the new record of €3.25 per share. Political and economic uncertainties in the period that followed led to renewed high volatility on the stock markets. The unfavorable outlook in key truck markets, particularly in the NAFTA region and the Middle East, had a negative effect on expectations regarding our business operations in the truck segment. The result of the Brexit referendum in the UK at the end of June took investors by surprise and led to a dramatic short-term decline in share prices worldwide. In this situation, the Daimler share price dropped to its lowest point of the year 2016 when it fell to €51.97 on July 6. During the prolonged phase of recovery that followed, automotive stocks, which had come under strong pressure throughout the course of the year, were able to rally and post significant gains once again. Sales at Mercedes-Benz Cars developed very favorably as a result of high demand for our new products, which had a positive effect on the development of our share price. During the China Capital Market Day event at the beginning of September, management provided a description of the strategy at Mercedes-Benz Cars. This strategy had already been underpinned by the solid development of business in China and was therefore very positively assessed by analysts and investors. With regard to commercial vehicles, investors kept a close eye on key markets, especially in the NAFTA region and Europe, throughout the rest of the year. In the fourth quarter, our share price climbed again and developed significantly better than the DAX. Daimler shares closed at €70.72 on December 30. At the end of the year, the company had a market capitalization of €75.7 billion (2015: €83.0 billion). Daimler's share price declined by 9% over the year as a whole, underperforming the DAX (+7%) and the Dow Jones STOXX Auto Index (-4%). When the dividend payout of €3.25 per share is included, our shareholders saw the value of their investment decrease by 5%.

Dividend of €3.25 ↗ A.02

We paid the highest dividend in the company's history in 2016 (€3.25 per share). This corresponds to a total dividend payout of €3,477 million, which was the highest dividend payout of any DAX-listed company. The Board of Management and the Supervisory Board will recommend the payment of a stable dividend of €3.25 per share for 2016 at the Annual Shareholders' Meeting on March 29, 2017. The total dividend will amount to €3,477 million.

A broad shareholder structure ↗ A.07

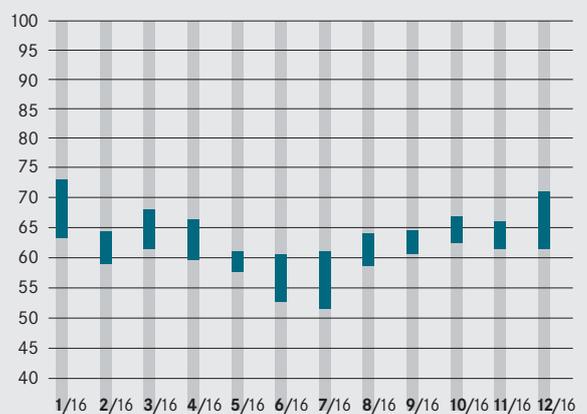
Daimler continues to have a broad shareholder base of approximately one million shareholders. Shareholder numbers increased during the reporting year, particularly as a larger number of private investors purchased our shares. The Kuwait Investment Authority (KIA) currently owns 6.8% of the company's shares, making it Daimler AG's largest single shareholder. The Renault-Nissan Alliance continues to hold 3.1% of Daimler's shares. BlackRock Inc., New York, still holds a stake above the 5% reporting limit as defined by Germany's Securities Trading Act (WpHG). In May 2016, BlackRock notified us that its proportion of the voting rights was 5.18% as of May 11, 2016.

The aforementioned and all other voting-rights notifications are published on the Internet at daimler.com/investors/share/voting-rights.

A.03

Daimler share price (high/low), 2016

In euros



A.04

Share price index



A.05**Key figures for Daimler shares**

	End of 2016	End of 2015	16/15 % change
Share capital (in millions of euros)	3,070	3,070	0
Number of shares (in millions)	1,069.8	1,069.8	0
Market capitalization (in billions of euros)	75.7	83.0	-9
Number of shareholders (in millions)	1.0	0.9	+11
Weighting in share indices			
DAX 30	7.52%	8.67%	
Dow Jones Euro STOXX 50	3.18%	3.63%	
Long-term credit ratings			
Standard & Poor's	A	A-	
Moody's	A3	A3	
Fitch	A-	A-	
DBRS	A (low)	A (low)	

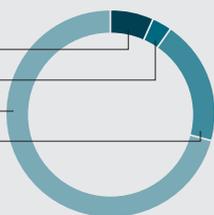
A.06**Stock-exchange data for Daimler shares**

ISIN	DE0007100000
German Securities Identification Number	710000
Stock-exchange symbol	DAI
Reuters ticker symbol	DAIGn.DE
Bloomberg ticker symbol	DAI:GR

A.07**Shareholder structure as of December 31, 2016**

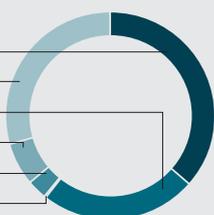
By type of shareholder

Kuwait Investment Authority	6.8%
Renault-Nissan	3.1%
Institutional investors	70.6%
Retail investors	19.5%

**A.08****Shareholder structure as of December 31, 2016**

By region

Germany	36.4%
Europe, excluding Germany	29.2%
USA	24.3%
Kuwait	6.8%
Asia	2.9%
Rest of the world	0.4%



Institutional investors hold a total of 71% of our equity capital, while private investors own 20%. Approximately 66% of our capital is in the hands of European investors and around 24% is held by US investors. **A.08** Daimler shares' weighting in major indices declined during the course of the year as a result of the development of the overall share price. With a weighting of 7.52% (2015: 8.67%), Daimler was ranked sixth in the German DAX 30 index at the end of 2016. **A.05** In the Dow Jones Euro STOXX 50 index, our shares had a weighting of 3.18% (2015: 3.63%), which put them in tenth place. Daimler shares are listed on the stock exchanges in Frankfurt and Stuttgart. A total volume of 1,210 million shares were traded in Germany in 2016 (2015: 1,188 million). Daimler shares are also increasingly being traded on multilateral trading platforms and in the over-the-counter market.

Employee share purchase plan implemented once again

Staff members entitled to purchase employee shares were able to do so once again in March 2016. As was the case in the previous year, the employees received a discount as well as bonus shares. At 19.8%, the participation rate in the year under review was significantly higher than in 2015 (11.7%). A total of 34,500 employees took part in the program (2015: 20,400); this is the highest number since 2008. The total number of shares purchased by employees also increased substantially, from 300,000 in 2015 to approximately 576,000 (of which just under 52,000 were bonus shares) in the year under review. The high participation rate for the employee share purchase plan was probably due to a significantly lower share price compared to the prior year, a high profit-sharing payout and the substantially higher dividend of €3.25 per share.

Annual Shareholders' Meeting in the CityCube in Berlin

Our Annual Shareholders' Meeting, which took place on April 6, 2016, was held for the second time in the CityCube in Berlin. Some 5,500 shareholders (2015: 5,000) attended the meeting. A total of 50.77% of the equity capital (2015: 36.15%) was represented at the meeting (actual attendees and shareholders who voted by absentee ballot). This positive increase is a reflection of our successful efforts to encourage more investors to exercise their voting rights. A large majority of the shareholders approved each of the agenda points proposed by the company's management. For example, the Annual Shareholders' Meeting approved the highest dividend in the company's history (€3.25 per share; 2015: €2.45) and re-elected Dr. Manfred Bischoff, Chairman of the Supervisory Board of Daimler AG, to the Daimler Supervisory Board as a member as a representing the shareholders. In addition, Petraea Heynike, a former member of the Executive Board of Nestlé S.A., was re-elected to the Daimler AG Supervisory Board. Important documents and information related to the Annual Shareholders' Meeting can be found on our website at daimler.com/investors/events/annual-meetings. In the exhibition areas of the CityCube, Daimler presented its technological expertise and broad range of products and services under the motto "Innovative. Digital. Leading." The presentation highlights included the Concept Intelligent Aerodynamic Automobile (Concept IAA) 2015, which attracted a lot of admiring looks. This aerodynamic world champion was developed and built almost entirely digitally in just ten months. A group of our trainees, as well as the global Laureus Sport for Good movement established by Daimler and Richemont 16 years ago, were also on hand to provide an insight into their work, and with "Mercedes me," the Mercedes-Benz brand presented services in addition to its products.

Continuation of comprehensive investor relations activities

In 2016, we once again provided institutional investors, analysts, rating agencies and private investors with timely information regarding the company's business development. We organized road shows for institutional investors and analysts in the finance capitals of Europe, North America, Asia and Australia. We also held many one-on-one meetings at investor conferences. This was especially the case at the international motor shows in Geneva and Paris. Sustainability-focused investors were also able to meet and talk with company representatives at an event held at the Paris Motor Show and at a conference in Paris in November. We reported on our quarterly results in conference calls and webcasts. The presentations can be viewed on our website at daimler.com/investors/events/presentations. The talks with analysts and investors focused on the latest earnings expectations for 2016, as well as on the business development and profitability of the individual divisions and regions. In addition, top executives from Daimler Trucks discussed the strategies and goals of their division during a capital market event held in June in Leinfelden (near Stuttgart), where they also offered participants the opportunity to go for a ride in a partially automated truck. Numerous analysts and investors accepted our invitation to join us for another capital market day in Beijing in September. During this event, the local top-management team described its strategies and activities in the crucial growth market in China, and also explained why we are so optimistic that Daimler will continue to expand its business in the Chinese market. The audio recordings and charts and illustrations from the events are available at daimler.com/investors/events/capital-market-days.

Awards once again for the print and online versions of the Annual Report

Our Annual Report won prestigious international awards once again in the year under review. Both the print version and the online version with numerous additional features took Platinum in the LACP 2015 Vision Awards competition ar2015.daimler.com. Our Annual Report was also named the best printed annual report worldwide from among the top 100 international submissions to the LACP.

Significantly more use of corporate website after modernization

In November 2015, the broad range of information offered on our website at the existing address daimler.com was transferred to a more powerful software platform and given a new design. We have also gradually made additional improvements since that time. Among other things, our website adapts to any device and is thus always displayed in an optimal size and format. Our modernization measures have increased the attractiveness of our website and significantly enhanced the user experience. As a result, the numbers of visits to our website and the session durations there have both risen considerably.

Number of online shareholders remains at a high level

Our shareholders continue to make good use of our range of personalized electronic information and communication. A total of 86,500 shareholders received the invitation and agenda for the Annual Shareholders' Meeting by e-mail rather than by post in 2016 (2015: 84,000). We would like to thank those shareholders for helping to protect the environment and cut costs. As was the case in the past, those shareholders once again had the opportunity to win attractive prizes in a lottery. Access to the e-service for shareholders and additional information can be found at <https://register.daimler.com>.

Refinancing benefits from high level of capital-market liquidity and good ratings

The ongoing expansionary monetary policies at central banks also impacted bond markets during the year under review. As a result of the high level of liquidity, companies with investment-grade ratings saw their risk premiums remain at a moderate level.

In 2016, Daimler primarily covered its refinancing needs by issuing bonds. A large proportion of those bonds were in the form of benchmark bond issuances (bonds with high nominal volumes) in euro and US-dollar markets. In the US capital market, for example, Daimler Finance North America LLC issued bonds worth a total of \$5.5 billion in July and October 2016. Those bonds had terms of three and five years. In addition, Daimler AG issued euro bonds in benchmark format with a total volume of €10.0 billion and terms of two, three, four, five, seven, eight, ten and 12 years. Daimler AG also issued two bonds in China (so-called Panda bonds), with a total volume of CNY 8.0 billion. Furthermore, many smaller bonds were issued by the Daimler Group in a variety of currencies and markets.

At the end of 2016, companies of the Daimler Group had issued bonds that were still outstanding in a volume of €63.1 billion (2015: €51.4 billion). Besides raising funds through the issuance of bonds, Daimler also issued a small volume of commercial paper in 2016.

Daimler also conducted several asset-backed security (ABS) transactions in the United States, Canada, Germany and China during the reporting year. In the United States, for example, the company generated a refinancing volume of US\$6.6 billion through six issuances. A further C\$0.5 billion was placed in Canada. In addition, Mercedes-Benz Bank used the Silver Arrow Platform to sell €1.0 billion in ABS bonds to European investors once again. Two ABS transactions were also successfully conducted in China for the first time, with a total volume of CNY 6.4 billion. [pages 114 f](#)

Objectives and Strategy

We invented the automobile more than 130 years ago, thus fundamentally changing the nature of mobility. Today as well, we are on the verge of a fundamental transformation, as our vehicles are becoming increasingly connected, autonomous and electric – and are being linked to innovative services. We accept the challenges associated with such developments and are creating new dimensions of mobility. And we want to take the lead – with outstanding products and services, new and profitable business models and a corporate culture that can keep pace with the requirements of a digitized world. We aim to achieve profitable growth and increase the value of the company. We plan to achieve our goals by focusing our activities on four strategic areas.

Four objectives

Delighted customers

Our leading brands in all divisions create value for our customers. We aim to finish at the top of all relevant customer-satisfaction rankings and win over customers with our outstanding quality. For that purpose, we create interfaces for sales and aftersales processes that ensure we can maintain contact with customers at all times. We want to expand connectivity in the vehicle even further, thus creating added value for our customers. We also offer our customers tailored transport and mobility services that improve efficiency and reflect the growing trend toward a sharing economy.

Technology leadership, innovation and digitization

We set standards for technology and innovation. We want our products from all the divisions to be the industry leaders in terms of safety, autonomous driving and green technologies. Here, we exploit the potential generated by Group-wide research activities and predevelopment and, where possible, we also make use of standardized systems and solutions. With the application of digital technologies, we aim to be at the forefront, both with our products and services and along the entire value chain. With connected products and services, we aim to inspire our customers, attract new customers, and utilize new business models in the fields of mobility and transport.

Profitable growth

We intend to achieve a 9% average return on sales (EBIT in relation to revenue) for the automotive business on a sustained basis. This overall figure is based on the return targets for the individual divisions. Those targets are 10% for Mercedes-Benz Cars, 8% for Daimler Trucks, 9% for Mercedes-Benz Vans and 6% for Daimler Buses. For Daimler Financial Services, we have set a target of 17% for return on equity.

The “Mercedes-Benz 2020” growth strategy is designed to ensure that our Mercedes-Benz Cars division will play the leading role in the premium segment worldwide over the long term. We also plan to further enhance the smart brand’s pioneering role in urban mobility. In addition, we want to further strengthen Daimler Trucks’ position as the leading truck manufacturer in the global truck business. Mercedes-Benz Vans aims to achieve

further profitable growth with the help of its “Mercedes-Benz Vans goes global” divisional strategy. Daimler Buses plans to further strengthen its leading position in the segment for buses above eight metric tons gross vehicle weight. Daimler Financial Services plans to maintain its position as the best captive financial and mobility services provider; it will continue to grow further in close cooperation with our other divisions.

In order to safeguard our profitability also under difficult market conditions, we are adapting our business system in a way that enables us to react quickly and flexibly to market fluctuations and create value as close to our markets as possible.

Best teams

We work in teams whose diversity in terms of gender, nationality and age is of great importance. Our employees are proud to work at Daimler, and we are one of the employers most sought after by job applicants. Our core corporate values – passion, respect, integrity and discipline – form the basis of our actions. Integrity is particularly important for Daimler, and guides our actions with regard to our employees, the Group, business partners and customers. We are firmly convinced that conducting business with integrity makes us more successful over the long term and is also good for society as a whole. [pages 137 ff](#)

Sustainability is a fixed element of our philosophy. For us, sustainability means conducting business responsibly to ensure long-term economic success in harmony with the environment and society. [pages 123 ff](#)

Four strategic focus areas

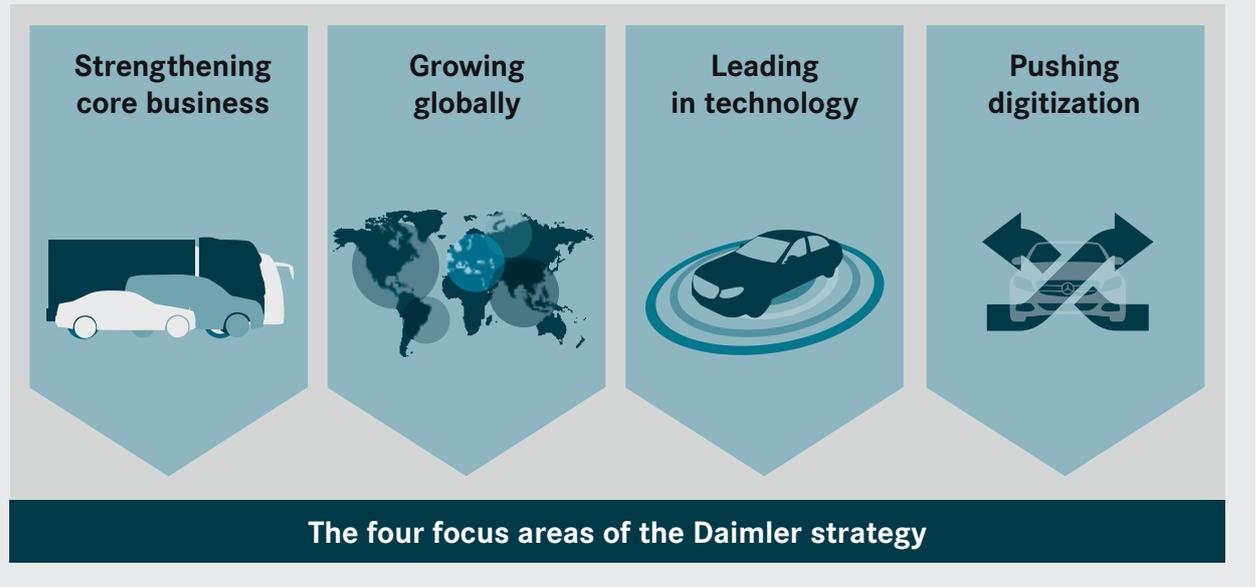
We plan to achieve our goals through four strategic focus areas. [➔ A.09](#)

We will focus on

- strengthening our core business,
- growing globally,
- leading in technology and
- moving ahead with digitization.

A.09

Strategic focus areas



Strengthening our core business

Mercedes-Benz Cars is strengthening its core business with innovative first-rate products and services, competitive cost structures, flexible processes and a customer-oriented sales organization. Our new products and services set standards in the strategic future-oriented fields of connectivity (Connected), autonomous driving (Autonomous), flexible use (Shared & Services) and electric drive systems (Electric). These areas are combined in the acronym CASE. Our strategy for Mercedes-Benz Cars now focuses on playing the leading role in each future-oriented area and on linking these areas to create outstanding products, services and business models. The major highlight of 2016 was the new E-Class, whose innovative assistance and safety systems have taken the model a step further in the direction of autonomous driving. We will launch two additional new E-Class models in 2017: the E-Class Coupe and the E-Class Cabrio. Furthermore, we will underscore our leading position in the area of autonomous driving and connectivity with the launch of an updated S-Class model. We will expand our range of electric vehicles in 2017 with additional plug-in hybrids and three new electric vehicles from the smart brand, and before the end of this year, we will present a completely new fuel-cell vehicle on the basis of the Mercedes-Benz GLC. Mercedes-Benz also unveiled its new EQ brand in September 2016, thereby ushering in a new era of electric mobility. By 2025, Mercedes-Benz plans to launch more than ten electric cars on the market.

We continue to forge ahead with our vehicle architecture and module strategy. By progressing with standardization and modularization at our manufacturing plants, we are reducing our investment requirements and fixed costs. The interaction between lead and partner plants is safeguarding both the transfer of knowledge and the high quality standards associated with “Made by Mercedes” worldwide. Extensive repositioning is helping to safeguard the future of our German plants. At the same time, we continue to expand our international production network. For example, we are building a new facility at

our site in Kecskemét, Hungary, and will begin manufacturing four-cylinder engines at a new plant in Jawor, Poland, in 2019. We are investing a total of €1 billion in our battery production operations, with €500 million of this amount earmarked for the construction of a second battery factory to be operated by our Deutsche Accumotive subsidiary in Kamenz, Germany.

Our “Best Customer Experience” initiative is designed to offer our customers the best experience among all automakers. All of our sales, service and financial services activities are aligned with each other throughout the entire duration of the customer relationship – right from the first contact. New sales formats such as mobile sales pavilions and Mercedes me Stores create meeting points that enable us to establish contact with new customers as well. Our “She’s Mercedes” initiative is allowing us to address women customers in a more targeted manner. More personalized service and advice is now being provided in our direct sales operations by including additional product experts. With the digital platform and service brand Mercedes me, we are providing innovative services, products and lifestyle offerings going beyond the car itself. [pages 30f](#)

The smart brand stands for innovative urban mobility concepts. We will continue to expand the range of smart products for use as trendy city cars, as private and fleet vehicles, and as tailored models for the car2go car sharing program. The smart brand is already a leader today when it comes to personalization and mobility services. Moreover, with its smart ready to drop delivery service, the brand is now also starting to offer a range of quality digital services.

Daimler Trucks relies on its technology leadership, global presence and intelligent use of platforms. The platform strategy allows the use of key synergy advantages. Our customers profit from simplification through the rapid availability of relevant truck technologies. Our drive-system component platforms for medium and heavy-duty engines and automatic transmissions already enjoy great success on the market. We are now following up with chassis and cab standardization and by

implementing a uniform electric and electronic architecture. In the future, the new “Truck Data Center” connectivity hardware will be installed as the heart of the connected truck across all Daimler Trucks brands. Possibilities for further efficiency improvements include not only the platform and common-component strategy, but also the rationalization of the product program and the streamlining of processes, especially at Mercedes-Benz Trucks. In order to further strengthen our competitiveness, we will continue optimizing our fixed costs. For the expansion of its core business, Daimler Trucks is pushing forward with electrification, as can be seen with the new FUSO eCanter and the Mercedes-Benz Urban eTruck.  [pages 42 ff](#)

Mercedes-Benz Vans’ “Mercedes-Benz Vans goes global” strategy has three elements: market strategies for global expansion, product strategies for the further expansion and differentiation of the product portfolio, and the development and commercialization of customer-focused and holistic transport solutions. As of late 2017, we will expand our portfolio with the launch of the Mercedes-Benz X-Class – a premium pickup truck that will be sold in Europe, Latin America, South Africa, Australia and New Zealand. Our current Sprinter with up to 5.5 metric tons gross vehicle weight is more powerful and boasts a higher payload capacity than before, making it even more versatile and efficient for customers. Further growth in online retail sales of goods can be expected to lead to higher sales of commercial vans in the future as well. Mercedes-Benz Vans is placing increasingly priority on electric mobility for the future of urban delivery transport.

Daimler Buses will focus over the coming years on achieving further sustainable and profitable growth and continual efficiency gains. Cost efficiency will be further improved through closer coordination between the facilities that manufacture complete buses and chassis. Additional business volume will be generated through increased sales of highly attractive complete buses and bus chassis, as well as by a convincing overall package of new and used vehicles, service and maintenance contracts, financing plans and new mobility services. In addition, Daimler Buses is increasingly focusing on natural-gas and electric drive.

Daimler Financial Services remains on course for growth and offers its customers a tailored system of financial and mobility services. These services range from leasing, financing and insurance solutions to car sharing, taxi apps and transport information and ticket purchasing services. About half of all the vehicles delivered by Daimler around the world today are either financed or leased by Daimler Financial Services. The division currently finances and leases 4.3 million cars and commercial vehicles worldwide, and plans to increase this figure in the future. Daimler Financial Services is also aiming to achieve the highest possible degree of customer satisfaction and greater customer loyalty under the motto “Engaging customers for life.” The independent Great Place to Work Institute lists Daimler Financial Services among the best multinational companies in the world to work for. This serves as an incentive to continue focusing on our attractiveness as an employer. With the acquisition of Athlon Car Lease International B.V., Daimler Financial Services made a strategic investment in the fleet-management business in 2016. This has made the division into a strong competitor in European fleet Management.

Growing globally

Growth in global demand for automobiles will take place mainly in Asia over the long term. Although growth rates in China will be more moderate in the next several years, we expect the Chinese automotive market to continue expanding considerably in terms of absolute sales figures. For example, over the next ten years, the sales volume in the world’s largest car market is likely to increase from the current 22 million to around 30 million vehicles. For Daimler, growing further on a global scale means improving our strong position in passenger-car and commercial-vehicle markets in Europe, North America and Japan, while also fully exploiting growth potential in Asia and various emerging markets.

In order to achieve **Mercedes-Benz Cars’** sales targets outside Europe, we are intensifying our activities in the world’s biggest sales market, China. Today, around two thirds of the Mercedes-Benz cars sold in China are manufactured locally. We produce the long and short versions of the new E-Class and the C-Class in China, as well as the GLC and GLA SUVs. In the electric-vehicle segment, we have teamed up with the Chinese battery and vehicle manufacturer BYD to develop a battery-electric automobile. This electric vehicle, which was launched in China in 2014 under the DENZA brand name, was joined in 2016 by another electric model with a range of 400 km. Our research and development center in Beijing is an important component of our international research and development network. In India, we are now building the GLC, our ninth car model to be produced there. In addition, Mercedes-Benz Research and Development India (MBRDI) in Bangalore is Daimler’s largest research and development center outside Germany. In Brazil, we put a new facility into operation in 2016 at our site in Iracemápolis, where we produce the C-Class and the compact GLA SUV for the local market. In Aguascalientes, Mexico, we and our strategic partner Renault-Nissan are building a production plant for the next generation of premium compact models.

Our goal for **Daimler Trucks** is to safeguard the division’s strong position in Europe and North and South America (regardless of market fluctuations), and to achieve significant growth in the Asian markets. We are present in Asia with two regional companies, Mitsubishi Fuso Truck and Bus Corporation (MFTBC) and Daimler India Commercial Vehicles (DICV), which has been operating in India for several years. At DICV in India, we build trucks of the BharatBenz brand as well as FUSO trucks for export to other markets. The FUSO trucks built in India are mainly aimed at price-sensitive markets in Asia, Africa and Latin America. Our activities in the field of medium-duty and heavy-duty trucks in China focus on cooperation with our partner Foton, with which we produce Auman brand trucks through our joint venture Beijing Foton Daimler Automotive Co. Ltd. (BFDA). We plan to begin selling locally produced Mercedes-Benz trucks in China as well at the end of the decade. With regard to Iran, we have now made preparations for the resumption of local production and sales of trucks, depending on the further development of local conditions. In order to fully utilize growth opportunities in the markets of the future in Africa, Asia and Latin America, we are positioning ourselves even closer to the pulse of the market in these regions with our new regional centers. These centers concentrate fully on sales and aftersales for commercial vehicles of the Daimler brands.

Mercedes-Benz Vans plans to continue growing in new markets within the framework of its “Mercedes-Benz Vans goes global” strategy. In order to further increase sales in North America and to improve our cost position, a new production plant is being established in North Charleston, South Carolina. Both the Vito, which we launched in North America under the name Metris in 2015, and the Sprinter are currently being assembled from parts kits in North Charleston.

Daimler Buses plans to grow in the emerging markets in the coming years. Great potential for growth exists especially in Latin America, and this potential can be utilized once the markets in the region begin to recover. Daimler Buses is well positioned in Latin America with a total of four production locations in Brazil, Mexico, Argentina and Colombia. In India, Daimler Buses operates a bus plant within the framework of its Daimler India Commercial Vehicles organization. With this approach, Daimler Buses aims to penetrate the Indian premium bus segment under the Mercedes-Benz brand name and the volume-bus segment under the BharatBenz brand, as well as offering tailored school buses and other complete buses for the requirements of export markets in the Middle East, Africa and Latin America. With its new Mercedes-Benz Conecto city bus, Daimler Buses is now strengthening its sales position in markets in Eastern Europe and the Middle East. With a low total cost of ownership and little emissions according to Euro VI, this bus perfectly meets the requirements of those markets. In the coming years, Daimler Buses aims to grow and gain market share also in its European core markets.

The **Daimler Financial Services** division continues to expand its business activities in line with the growth strategies of the automotive divisions. The division offers leasing and financing models tailored to specific regions, as well as a broad range of mobility services worldwide. China especially offers good opportunities for further substantial growth in the future. Daimler Financial Services supports the worldwide sales of Daimler vehicles in approximately 40 countries.

Leading in technology

As a pioneer of automotive engineering, we continue to expand our technology leadership in the areas of drive systems, safety, autonomous driving and the connectivity of our vehicles.

At **Mercedes-Benz Cars** we have significantly expanded our activities in the area of electric mobility. As things stand now, we believe that by 2025, 15% to 25% of our new vehicles will be all-electric models. Until then, we plan to introduce more than ten new electric vehicles. All of our purely battery-powered vehicles will be consolidated under our new EQ brand in the future. In other words, EQ is more than just the name of a vehicle. Instead, it encompasses our comprehensive electric-mobility ecosystem of products, services, and charging and storage technologies. In total, we will invest approximately €10 billion in the expansion of our range of electric vehicles in the coming years. [pages 20 ff](#)

The systematic optimization of combustion engines remains a key component of our efforts to achieve zero-emission mobility. One important aspect here is the complete electrification of the drivetrain through the use of new technologies such as the integrated starter-generator (ISG) and the 48-volt on-board power system. The new four-cylinder diesel engine, which was introduced in the new E-Class in 2016, will be followed in 2017 by four additional members of the new engine family. Systematic hybridization is another important interim solution on the road to zero-emission mobility. Our new plug-in hybrid vehicles combine the highest levels of dynamic handling and comfort with outstanding fuel consumption, and they also allow purely electric and thus locally emission-free driving. Taken together, our measures in this area are paying off: As early as 2015, we were able to reduce the CO₂ emissions of newly registered vehicles from Mercedes-Benz Cars in the European Union to an average of 123 grams per kilometer. This means we achieved our 2016 target of 125 g/km ahead of schedule. We were able to maintain the average of 123 g/km in 2016 despite the fact that our sales structure changed towards upper-mid and large vehicles. We succeeded by means of technical innovations and further reduced the CO₂ emissions of individual models. [pages 30 f](#)

Fuel efficiency is a key selling point also for commercial vehicles. In order to improve fuel efficiency even further, we are continually optimizing vehicles and drivetrains at the **Daimler Trucks** division. In Europe, we aim to reduce the fuel consumption of our truck fleet by an average of 20% over the period of 2005 to 2020. Our integrated approach, which incorporates all the players from the transportation sector – ranging from commercial vehicle producers, bodybuilders and tire manufacturers to logistics companies – has taken us a major step towards achieving this goal. During the year under review, we conducted a field test with a comprehensively optimized production truck that was not only equipped with a new engine, but also featured an enhanced trailer as well as modified tires and other key components. The CO₂ emissions produced by this vehicle were 20% lower than those generated by a standard semitrailer rig.

In the North American market, the new Freightliner Cascadia is once again setting standards for fuel efficiency. With the help of additional optimization measures for aerodynamics and the drive system, we succeeded in improving the fuel efficiency of the new Freightliner Cascadia by up to 8% compared with the predecessor model. We are the world leader for hybrid technologies in commercial vehicles. As early as 2006, we launched series production of the FUSO Canter Eco Hybrid for the Japanese market. The FUSO Canter Eco Hybrid boasts fuel savings of up to 23% compared with conventional models, and its owners are able to recoup the moderately higher cost for the hybrid model within just a few years.

In 2017 we will launch a small production series of the third generation of the all-electric FUSO eCanter light-duty truck and will begin delivering the model to customers. This truck’s locally emission-free drive system is already helping to reduce exhaust and noise emissions in cities. The Mercedes-Benz Urban eTruck will allow purely electric transport for the first time in a vehicle with a gross vehicle weight of up to 26 metric tons and a range of up to 200 kilometers. As things stand now, we should be able to launch this model on the market at the beginning of the next decade.

Mercedes-Benz Vans is also benefiting from the fuel savings and emission reductions achieved with the new diesel engines in our passenger cars. Nevertheless, the division is increasingly focusing on electric mobility solutions for urban delivery operations in the future. For example, Mercedes-Benz Vans will launch series production of a commercial van with electric drive in 2018. The purely electric drivetrain is being developed by Mercedes-Benz Vans and is designed especially for the requirements of customers in the urban delivery sector.

Fuel savings of up to 8% have also been achieved through the launch of Euro VI bus models. Use of the latest generation of the OM 470 and OM 471 diesel engines in the Setra and Mercedes-Benz Travego, as well as vehicle-related measures, have led to a reduction in fuel costs and CO₂ emissions of a further 4% for these coaches. **Daimler Buses** is making greater use of natural gas and electric drive systems. The Mercedes-Benz Citaro NGT is a city bus with a natural-gas engine and CO₂ emissions that are up to 10% lower than those of the predecessor model. Daimler Buses also plans to launch an electric bus for the segment of locally emission-free vehicles in 2018.

We continue to strengthen our leading position with regard to safety and assistance systems in all our automotive divisions. Our approach to autonomous and accident-free driving is based on the use of comprehensive safety and assistance systems combined with vehicle connectivity technology and real-time digital maps. This approach guides us as we develop autonomously driving cars and commercial vehicles to the series-production stage. At Mercedes-Benz Cars, this development is being spearheaded by the extensive assistance systems in the new E-Class, and among our commercial vehicles by the Freightliner Inspiration Truck concept vehicle with automated driving mode, the Mercedes-Benz Actros with Highway Pilot, and the Mercedes-Benz Future Bus with City-Pilot. Daimler Trucks underscores its leading position in the field of safety with the further development of proven safety technologies. With fourth-generation Active Brake Assist and with Sideguard-Assist – both of which feature person recognition – Mercedes-Benz Trucks has started another new chapter for active safety technology. These systems primarily serve to protect the weakest road users: pedestrians and cyclists.

Detailed information on the topic of “Maintaining our technology leadership” can be found in this Annual Report on [pages 12 ff and 126 ff](#)

Moving ahead with digitization

Digitization is leading to major changes in society, economic competition, the way customers think and act and, ultimately, everything we do. It is altering our products and services, our communication with customers and the manner in which we create value at Daimler. Digitization is also paving the way for new mobility concepts and enabling the development of new business models for mobility and transport. In order to stay on top as this fundamental transformation proceeds, we are moving ahead with digitization at all levels and along the entire value chain, while continuing to focus on our customers. Our activities involve enhancing the connectivity of our products and services – i.e. developing customer-focused digital services and new business models and increasing digital communication with customers, starting with the initial contact and extending through the entire relationship.

Digitization along the entire value chain allows us to shorten development times, design production processes more flexibly and utilize marketing and sales channels in a more direct manner. Industry 4.0 will digitize factories through the use of systems for augmented reality, virtual assembly or human-robot cooperation. The amount of monotonous and strenuous work will be reduced as a result. The intelligent use of continually increasing volumes of data, along with the networking of all points in the value chain, will enhance efficiency, improve quality and make the entire production process even more flexible.

We continue to roll out connected vehicles at **Mercedes-Benz Cars**. Mercedes me connect, which will be made available in additional countries and regions, allows customers to access their vehicle online at any time and from any location. Mercedes me is our digital platform that brings together mobility, financing and other services (connect, assist, move and finance), and also provides information and news about the Mercedes-Benz brand (inspire). [pages 30 f](#) Meanwhile, smart is introducing a range of high-quality digital services for urban mobility with the new “smart ready to...” The new range of services has been launched with smart ready to drop, which offers parcel deliveries straight to the trunk of a smart vehicle.

We also continue to expand digitization and vehicle connectivity at **Daimler Trucks**. Connectivity will be a crucial factor for success in the logistics sector in the future. Daimler Trucks is the leader by far here, with approximately 400,000 connected vehicles worldwide. Our products are part of a comprehensive logistics system. The foundation for this is new connectivity hardware known as Truck Data Center that will be installed in all our trucks in the future. The system can be used for diverse applications and the hardware can also be installed in trucks from non-Group brands. The module receives all internal truck data and serves as an interface for external communication as well. Daimler Trucks plans to invest around €500 million in truck connectivity between now and 2020. In the meantime, services already available today such as Mercedes-Benz Uptime are helping to further reduce commercial vehicle downtimes. With the opening of the FleetBoard Store for apps at the beginning of 2017, we are establishing an open platform that allows software experts from other industry partners, as well as app developers, to contribute useful apps that increase the efficiency of the haulage sector as a whole. We are also further expanding our Detroit Connect telematics services in North America, in cooperation with partners from the IT sector such as Microsoft and AT&T.

With its adVANce strategic initiative, **Mercedes-Benz Vans** is underscoring its transformation from a pure vehicle manufacturer into a provider of customer-focused system solutions. The new Mercedes PRO service brand bundles professional services on a digital platform and has started the year 2017 with the launch of innovative connectivity solutions (Mercedes PRO connect). Our Vision Van concept vehicle offers a preview of the future of the digitized van, which will be part of a supply chain optimized down to the last mile through comprehensive connectivity. We will invest €500 million for the future initiative by 2020.

Connectivity at **Daimler Buses** also offers huge benefits for everyone from bus operators (in terms of fleet management and maintenance costs) to bus drivers traveling their routes. Moreover, passengers benefit from e-tickets and many other features. An important component of future urban mobility solutions are Bus Rapid Transit (BRT) systems, which are already offering efficient, fast and affordable local public transport in many cities around the world.

Digital technologies also offer us the opportunity to develop new and innovative mobility concepts for private, business and public transport applications. Examples here include car2go, CharterWay, Bus Rapid Transit and the “moovel” mobility platform. With car2go, which is our biggest business for private mobility services and is managed by **Daimler Financial Services**, we are the world’s leading company for flexible car sharing with more than 2.2 million customers. moovel offers our customers the opportunity to optimally compare various mobility services and then book and pay for them. In July 2016, the Daimler subsidiary mytaxi and Hailo, two leading app-based taxi providers, decided to merge. They now have 100,000 drivers in more than 50 cities in nine countries, and constitute the biggest European taxi network. In addition, Daimler increased its interest in the exclusive chauffeur service Blacklane in the third quarter, and has an interest in the long-distance bus company Flixbus.

New ways of thinking and acting are required if the digital transformation at our company is to be successful. We want to enthuse our employees for digital technologies and to strengthen our culture of innovation. DigitalLife@Daimler is a program that promotes the digital transformation throughout the Group, improves employees’ digital literacy and raises their enthusiasm for digital technologies and topics. Internal communities, blogs, events, roadshows and idea competitions offer opportunities for the development of new digital ideas and are used to promote the most innovative concepts as “internal startups.” In addition, we launched for example the Startup Autobahn initiative, which we operate with several partners. Our DigitalLife Day series of events takes employees into the digital world of tomorrow.

We are also changing our structures and processes in order to ensure that we can optimally utilize the opportunities offered by digitization. To this end, we have created new organizational units such as Future Transportation Systems and Mercedes-Benz Mobility GmbH at Mercedes-Benz Vans and CASE at Mercedes-Benz Cars. These organizations can develop their own products and business ideas independently of the processes at their respective divisions or business units. Our goal here is to combine the speed and risk-taking culture of the digital sector with our company’s focus on perfection and innovative capability.

Together with our employees, we are developing a new management culture within the framework of the Leadership 2020 program, which will help ensure our success also in the future. With this approach, we are addressing the challenges associated with the digital world and creating the basis for cultural changes throughout the Group.

Substantial investment in the future of the Group

In the coming years, we will continue to move ahead systematically with our innovation offensive in order to implement our growth strategy through the introduction of new products, innovative technologies and state-of-the-art manufacturing facilities. A large amount of our investment will be used for the digitization of processes and products throughout the entire Group. We will therefore invest more than €14 billion in property, plant and equipment in 2017 and 2018, as well as more than €16 billion in research and development projects. With this plan, we are once again increasing our investment in order to safeguard the future of the Daimler Group. [↗ A.10 and A.11](#)

The investment in property, plant and equipment will mainly be used to prepare for the production launches of our new models and new combustion engines. However, we will also use our investment to realign our manufacturing facilities in Germany, to increase local production in growth markets and to expand our battery production network. [🔗 page 178](#)

Most of our outlay for research and development will be used for new products, innovative drive-system and safety technologies, vehicle connectivity systems and the further development of autonomous-driving technologies. Plans also call for substantial funds to be invested in our comprehensive electric mobility offensive. [🔗 page 178](#)

A.10

Investment in property, plant and equipment

	2015	2016	2017-2018
Amounts in billions of euros			
Daimler Group	5.1	5.9	14.3
Mercedes-Benz Cars	3.6	4.1	10.5
Daimler Trucks	1.1	1.2	2.3
Mercedes-Benz Vans	0.2	0.4	1.2
Daimler Buses	0.1	0.1	0.2
Daimler Financial Services	0.03	0.04	0.06

A.11

Research and development expenditure

	2015	2016	2017-2018
Amounts in billions of euros			
Daimler Group	6.6	7.6	16.2
Mercedes-Benz Cars	4.7	5.7	12.2
Daimler Trucks	1.3	1.3	2.7
Mercedes-Benz Vans	0.4	0.4	0.9
Daimler Buses	0.2	0.2	0.4



We develop solutions for the mobility of the future

Daimler continued along its path of profitable growth in 2016. Unit sales and revenue surpassed the prior-year levels and the Group's EBIT adjusted for special items was also higher than in 2015. On the basis of solid finances, we focused our business on the future: with outstanding vehicles and services, with new, profitable business models and with a corporate culture that meets the requirements of the digitized world. We invested more than €13 billion in the future of the Daimler Group, thus creating the right conditions for further profitable growth.

B | Combined Management Report

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Corporate Profile

Business model

Daimler can look back on a tradition covering 130 years – a tradition that extends back to Gottlieb Daimler and Carl Benz, the inventors of the automobile, and features pioneering achievements in automotive engineering. Today, the Daimler Group is a globally leading vehicle manufacturer that offers an unparalleled range of premium automobiles, trucks, vans and buses. The product portfolio is rounded out by a range of tailored financial services and mobility services. Daimler's goal is to continue to play a leading role in the automotive industry in the development of products and services for the future of mobility.

Daimler AG is the parent company of the Daimler Group and is domiciled in Stuttgart (Mercedesstraße 137, 70327 Stuttgart, Germany). The main business of Daimler AG is the development, production and distribution of cars, trucks and vans in Germany and the management of the Daimler Group. The management reports for Daimler AG and for the Daimler Group are combined in this management report.

With its strong brands, Daimler is active in nearly all the countries of the world. The Group has production facilities in a total of 19 countries and more than 8,500 sales centers worldwide. The global networks of research and development activities

and of production and sales locations give Daimler considerable advantages in international competition and also offer additional growth opportunities. In addition, we can apply our innovations in a broad portfolio of vehicles while utilizing experience and expertise from all parts of the Group. This also helps us with the further development of technologies and services that point the way forward to the future of mobility. Additional potential is generated by the digitization of our processes and products.

In 2016, Daimler increased its revenue by 3% to €153.3 billion. The Group's five divisions contributed to this total as follows: Mercedes-Benz Cars 56%, Daimler Trucks 21%, Mercedes-Benz Vans 8%, Daimler Buses 3% and Daimler Financial Services 13%. At the end of 2016, Daimler employed a total workforce of more than 282,000 men and women worldwide.

The products supplied by the **Mercedes-Benz Cars** division comprise a broad spectrum of premium vehicles of the Mercedes-Benz brand, its Mercedes-AMG high-performance brand and its Mercedes-Maybach luxury brand. These vehicles range from the compact models of the A-Class and B-Class to a highly varied program of sport utility vehicles, roadsters, coupes and convertibles and S-Class luxury sedans. The portfolio is rounded out by the Mercedes me sub-brand and the high-quality small cars of the smart brand. Furthermore, we launched the new EQ brand in 2016 for all activities connected with electric mobility. The most important markets for Mercedes-Benz Cars in 2016 were China with 22% of unit sales, the United States (16%), Germany (14%) and the other European markets (30%). In the context of its growth strategy, the division is continually further developing its flexible and efficient production network with 29 plants on four continents. The plants are operating at a high level of capacity utilization, so we are expanding our production capacities with a new facility in Jawor, Poland, and a second, highly flexible plant in Kecskemét, Hungary. The German facilities are our lead plants and competence centers and form the backbone of the worldwide production organization. In connection with our electric offensive, we are examining the possibility of producing electric vehicles and components at existing sites within our global production network. Thanks to highly flexible structures, we can produce vehicles with different drive systems in our plants, allowing us to react flexibly and quickly to changing demand in the markets. The first series-production vehicle from the EQ brand will be produced at our plant in Bremen. We have already started with intensive preparations there.

B.01

Consolidated revenue by division

Mercedes-Benz Cars	56.0%
Daimler Trucks	20.7%
Mercedes-Benz Vans	8.0%
Daimler Buses	2.7%
Daimler Financial Services	12.6%



As the biggest globally active manufacturer of trucks above 6 metric tons gross vehicle weight, **Daimler Trucks** develops and produces vehicles in a global network under the brands Mercedes-Benz, Freightliner, Western Star, FUSO and BharatBenz. The division's 26 production facilities are located in the NAFTA region (14), Europe (7), Asia (3) and South America (2). In China, Beijing Foton Daimler Automotive Co., Ltd. (BFDA), a joint venture with our Chinese partner Beiqi Foton Motor Co., Ltd., has been producing trucks under the Auman brand name since 2012. Daimler Trucks' product range includes light, medium and heavy-duty trucks for local and long-distance deliveries and construction sites, as well as special vehicles used mainly in municipal applications. Due to close links in terms of production technology, the division's product range also includes the buses of the Thomas Built Buses and FUSO brands. Daimler Trucks' most important sales markets in 2016 were the NAFTA region with 35% of unit sales, Asia (30%), the EU30 region (European Union, Switzerland and Norway - 19%) and Latin America excluding Mexico (7%).

Mercedes-Benz Vans is a global supplier of a complete range of vans and associated services. The division's product range in the segment for commercial vans comprises the Sprinter large van, the Vito mid-size van (marketed as the "Metris" in the United States) and the Mercedes-Benz Citan urban delivery van. The range of vans in the private-customer segment consists of the V-Class multi-purpose vehicle (MPV) and the Marco Polo camper vans and recreational vehicles. Mercedes-Benz Vans has manufacturing facilities at a total of nine locations in Germany, Spain, the United States and Argentina, as well as in China within the framework of the Fujian Benz Automotive Co.,

Ltd. joint venture, in France in the context of the strategic alliance with Renault-Nissan, and in Russia in cooperation with our partners GAZ and YaMZ. The most important markets for vans at present are in the EU30 region, which accounts for 70% of unit sales in the reporting year, and the NAFTA region (12% of unit sales). We are also systematically exploiting new growth potential within the framework of the "Mercedes-Benz Vans goes global" business strategy. For example, we are moving into new product segments and we will become the first premium manufacturer to introduce a model series in the very promising segment of mid-size pickups when we launch the X-Class at the end of 2017. We are also expanding our presence in growth markets. In the summer of 2016, we began building a new Sprinter production facility in South Carolina in the United States. We also expanded our presence in China, the world's biggest automotive market, by launching the V-Class and the Vito there in 2016.

The **Daimler Buses** division with its brands Mercedes-Benz and Setra is the undisputed industry leader for buses above 8 metric tons in its traditional core markets in the EU30 region, Brazil, Turkey, Argentina and Mexico. The division's product range comprises city and intercity buses, coaches and bus chassis. The largest of the division's 14 production sites are located in Germany, France, Spain, Turkey, Argentina, Brazil and Mexico, and since 2015, in India as well. In 2016, Daimler Buses generated 66% of its revenue in the EU30 region and 13% in Latin America (excluding Mexico). While we mainly sell fully equipped buses in Europe, our business in Latin America, Mexico, Africa and Asia is focused on the production and distribution of bus chassis.

B.02

Daimler Group structure 2016

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services
Revenue	€89.3 billion	€33.2 billion	€12.8 billion	€4.2 billion	€20.7 billion
Employees	139,947	78,642	24,029	17,899	12,062
Brands	 MAYBACH Mercedes me 	 	 	 	Mercedes-Benz Bank Mercedes-Benz Financial Services

The **Daimler Financial Services** division supports the sales of the Daimler Group's automotive brands in approximately 40 countries worldwide. Its product portfolio primarily consists of tailored financing and leasing packages for customers and dealers, but also insurance brokering, fleet management services, investment products and credit cards, as well as various mobility services such as the "moovel" mobility platform. With the mytaxi app, following the merger with Hailo, we now reach approximately 6 million customers in more than 50 cities. The flexible mobility concept car2go is used by more than 2.2 million customers worldwide. The main areas of the division's activities are Western Europe and North America, and increasingly China as well. During the year under review, Daimler Financial Services financed or leased about 50% of the vehicles sold by Daimler. The division's contract volume of €132.6 billion covers more than 4.3 million vehicles. Daimler Financial Services also holds a 45% interest in the Toll Collect consortium, which operates an electronic road-charging system for trucks on highways in Germany.

Daimler is active in the global automotive industry and related sectors also through a broad network of subsidiaries, holdings and partnerships. The statement of investments of Daimler AG in accordance with Section 313 of the German Commercial Code (HGB) can be found in [Note 40 of the Notes to the Consolidated Financial Statements](#).

Portfolio changes and strategic partnerships

By means of targeted investments and future-oriented partnerships, we strengthened our core business and utilized additional growth potential in 2016. At the same time, we focused on the continuous further development of our business portfolio, as well as on improving our competitiveness in our core business areas.

Daimler Financial Services acquires Athlon

Daimler Financial Services made strategic investments in its fleet management business in the year under review. In June 2016, agreements were signed governing the acquisition of Athlon Car Lease International B.V., a subsidiary of the Rabobank Group in the Netherlands. Athlon is a leading provider of mobility solutions in Europe, with a particular focus on commercial fleet leasing and management. It is planned to operate Daimler's entire fleet-management business under the Athlon brand. This new brand will mark the emergence of one of the leading companies in the European fleet management sector, with a portfolio consisting of approximately 360,000 cars and vans. The transaction was completed in December 2016 following approval by antitrust and other supervisory authorities.

Strengthening mobility services

Daimler has continually invested in the establishment and expansion of mobility platforms and services in recent years. In order to ensure that we occupy a position as a leading provider of innovative mobility solutions, we strengthened and expanded our activities in this area during the year under review.

In April 2016, the **moovel Group**, which is a wholly owned Daimler subsidiary, reorganized its activities in North America: GlobeSherpa was merged into RideScout and renamed as moovel North America. The consolidation of our mobility services under the management of moovel North America will strengthen our business activities in this sector on the US market. moovel Group offers customers moovel transit in the United States and in Germany the moovel mobility app. Hamburg has now become the first German city with more than one million residents to receive one-stop urban mobility services via moovel and its app, which now allows for the direct booking and payment of services provided by car2go and mytaxi, as well as train journeys and trips within the Hamburger Verkehrsverbund (HVV) regional transport network.

The Daimler subsidiary **mytaxi** and Hailo, two innovative and leading app-based taxi ordering services, joined forces in the reporting year. The merger has created Europe's biggest company in this sector, with 100,000 registered taxi drivers and 6 million customers in more than 50 cities in nine European countries. Daimler has a 69% interest in the merged company. The two providers complement each other perfectly with their combined geographical coverage: Hailo operates in the United Kingdom, Ireland and Spain, while mytaxi offers services in Germany, Italy, Austria, Poland, Portugal, Spain and Sweden.

Daimler has also increased its stake in the professional chauffeur service portal **Blacklane** to 31%. Blacklane has received an eight-digit investment that it will use to further expand its global business. Blacklane has around 200 employees and is represented in over 250 cities and 500 airports in more than 50 countries worldwide. Daimler has invested in Blacklane since 2013. The global market for professional ride services is currently estimated to have a volume of about US\$30 billion per year, and it continues to evolve and grow. Daimler also holds an interest in FlixBus, a long-distance bus operator.

Extensive investment in electric mobility

Construction of a second battery factory for our wholly owned subsidiary Deutsche Accumotive began in Kamenz in October 2016. Daimler thus continues to move ahead systematically with its strategy for electric mobility. With an investment of approximately €500 million, the site in Kamenz will be one of the biggest and most modern battery factories in Europe. Daimler plans to invest a total of around €1 billion in the expansion of its global battery production network. The Group already offers a large number of electric vehicles and will continue to expand that product range. Mercedes-Benz presented its new electric mobility brand, EQ, at the 2016 Paris Motor Show. EQ offers a comprehensive electric-mobility ecosystem of products, services, technologies and innovations. The new brand is heralded by the near-production Concept EQ, which had its world premiere in Paris. The first series-produced EQ model will be launched in the SUV segment before the end of this decade. It will be followed by a model offensive that will gradually expand the portfolio of Mercedes-Benz Cars to include even more electric models. Deutsche Accumotive will supply the batteries for the first EQ production cars. [pages 20 ff](#)

Development of a charging infrastructure for electric vehicles

The development of an effective charging infrastructure is a precondition for the success of electric mobility. Daimler is cooperating with various partners in this area. In November 2016, it was announced that Daimler AG, the BMW Group, Ford Motor Company and the Volkswagen Group with Audi and Porsche are planning a joint venture to establish Europe's biggest charging network for electric vehicles. The partners have signed a memorandum of understanding to this effect. Together, they will quickly set up a substantial number of charging stations, thus considerably enhancing the long-distance practicality of electric mobility. Also together with other partners in German industry, Daimler holds a stake in the e-roaming platform Hubject, a joint venture that is promoting the digital connectivity of charging stations for electric vehicles throughout the industry.

Expansion of our business with stationary energy storage

Daimler AG systematically expanded its network of expertise for lithium-ion battery applications in 2016. Mercedes-Benz Energy GmbH, which was established in June, is now responsible for the development and global sales of stationary energy-storage units of the Mercedes-Benz brand. This move enables Daimler to operate in a more targeted manner in the growing market for stationary batteries. The production of the systems remains the core area of expertise at our subsidiary Deutsche Accumotive GmbH & Co. KG. By expanding this line of business to include stationary batteries for private and industrial applications, Deutsche Accumotive GmbH & Co. KG was able to open up new growth opportunities in 2015. Deliveries of domestic storage solutions for the German market began in April 2016, and work has already started on setting up the first large-scale industrial projects in the field of primary control power. With the establishment of Mercedes-Benz Energy GmbH in Kamenz, Germany, the company is now taking another step toward expanding its business with stationary energy storage. Here, Daimler is focusing in particular on international expansion and collaboration with new partners. For example, Mercedes-Benz Energy Americas, LLC was established in October 2016 as a distributor of stationary storage systems for private households and commercial and industrial applications in the North American market.

Support for startups

Daimler pursues a variety of approaches designed to help the company benefit from the creativity, speed and agility of startups that are not part of the Group's holdings. For example, Daimler is working in the Start-up Autobahn project with the US venture capital company Plug and Play, the University of Stuttgart and various startup companies that develop innovative mobility ideas. Daimler and its partners support the project by making their expertise and infrastructure available. The specially selected startups in the project are given three months to develop their ideas further and to present them to investors, who then decide whether or not they should receive funding.

Daimler also makes relatively small strategic investments in venture capital funds in the United States, China and Israel via Daimler Vermögens- und Beteiligungsgesellschaft mbH and Daimler North America Corp. Strategic cooperation with these funds enables us to gain access to innovative startup companies and to benefit from new trends early on. In other words, the venture capital funds help us identify investment opportunities and new technologies and to develop business models that support the objectives of various Daimler strategies.

Important events

Pension plan assets strengthened

The Board of Management of Daimler AG approved a measure that went into effect on June 30, 2016 to add approximately €1.8 billion to domestic plan assets in Germany in order to strengthen the pension plan assets over the long term. This was effected by transferring the 3.1% shareholdings in each of Renault S. A. and Nissan Motor Co. Ltd. into the Daimler AG pension fund. This improved the funded status of our pension obligations and also led to a non-recurring positive EBIT item of approximately €0.6 billion in 2016. Regardless of the share transfer, we will continue our successful strategic partnership with the Renault-Nissan Alliance.

EU antitrust proceedings

In a settlement reached on July 19, 2016, the European Commission concluded the antitrust proceedings against Daimler and other truck manufacturers that commenced in 2011. The Commission imposed a fine on Daimler amounting to €1.0 billion. Daimler cooperated closely with the authorities throughout the proceedings, and the European Commission took this into account in reducing the fine imposed. Daimler had recognized a provision for the proceedings and paid the fine in September 2016.

Performance measurement system

Financial performance measure

The financial performance measures used at Daimler are oriented toward our investors' interests and expectations and provide the foundation for our value-based management.

Value added

Value added is a key element of our performance measurement system, which is applied at both Group and divisional levels. It is calculated as the difference between operating profit and the cost of capital of average net assets. Alternatively, the value added of the industrial divisions can be determined by using the main value drivers: return on sales (quotient of EBIT and revenue) and net assets' productivity (quotient of revenue and net assets). ↗ B.03

B.03

Calculation of value added

$$\text{Value added} = \text{Profit measure} - \frac{\text{Net assets} \times \text{Cost of capital (\%)}}{\text{Cost of capital}}$$

$$\text{Value added} = \left[\text{Return on sales} \times \text{Net assets productivity} - \text{Cost of capital (\%)} \right] \times \text{Net assets}$$

The use of a combination of return on sales and net assets' productivity within the context of a strategy of profitable revenue growth provides the basis for the positive development of value added. Value added shows the extent to which the Group and its divisions achieve or exceed the minimum return requirements of shareholders and creditors, thus creating additional value.

The quantitative development of value added and the other financial performance measures is explained in the "Profitability" chapter. [👁 pages 103 ff](#)

Profit measure

The measure of operating profit at the divisional level is EBIT (earnings before interest and income taxes). EBIT thus reflects the divisions' responsibility for profit and loss. The measure of operating profit used at the Group level is net operating profit. It comprises the EBIT of the divisions as well as profit and loss effects for which the divisions are not held responsible. The latter include income taxes and other reconciliation items.

[➤ B.12 on page 103](#)

Net assets

Net assets are the basis of the investors' required return. The industrial divisions are accountable for the net operating assets; all assets, liabilities and provisions which they are responsible for in day-to-day operations are therefore allocated to them. Performance measurement at Daimler Financial Services is on an equity basis. Net assets at the Group level include the net operating assets of the industrial divisions and the equity of Daimler Financial Services, as well as assets and liabilities from income taxes and other reconciliation items which cannot be allocated to the divisions. Average annual net assets are calculated from average quarterly net assets. [👁 page 108](#)

Cost of capital

The required rate of return on net assets, and hence the cost of capital, is derived from the minimum rates of return that investors expect on their invested capital. The cost of capital of the Group and the industrial divisions comprises the cost of equity as well as the costs of debt and net pension obligations of the industrial business; the expected returns on liquidity of the industrial business are considered with the opposite sign. The cost of equity is calculated according to the capital asset

pricing model (CAPM), using the interest rate for long-term risk-free securities (such as German government bonds) plus a risk premium reflecting the specific risks of an investment in Daimler shares. While the cost of debt is derived from the required rate of return for obligations entered into by the Group with external lenders, the cost of capital for net pension obligations is calculated on the basis of discount rates used in accordance with IFRS. The expected return on liquidity is based on money-market interest rates. The Group's cost of capital is the weighted average of the individually required or expected rates of return. During the reporting period, the cost of capital amounted to 8% after taxes. For the industrial divisions, the cost of capital amounted to 12% before taxes; for Daimler Financial Services, a cost of equity of 13% before taxes was applied. [➤ B.04](#)

Return on sales

As one of the main factors influencing value added, return on sales is of particular importance for assessing the industrial divisions' profitability. The combination of return on sales and net assets' productivity results in return on net assets (RONA). If RONA exceeds the cost of capital, value is created for our shareholders. The measure of profitability for Daimler Financial Services is not return on sales, but return on equity.

Key performance indicators

The important financial indicators for measuring our operating financial performance, in addition to EBIT and revenue, are the free cash flow of the industrial business, investment, and research and development expenditure. Along with the indicators of financial performance, we also use various non-financial indicators to help us manage the Group. Of particular importance in this respect are the unit sales of our automotive divisions, which we use as the basis for our capacity and human resources planning and workforce numbers.

Furthermore, within the context of our sustainability management, we use other non-financial indicators such as the CO₂ emissions of our vehicle fleet and the energy and water consumption of our production sites. Non-financial indicators are also used to determine the remuneration of our Board of Management members. In addition, integrity and compliance are important criteria applied in the annual target agreements for our executives, as well as in assessing the achievement of those targets.

Details of the development of non-financial performance indicators can be found in the chapters "Economic Conditions and Business Development" and "Sustainability and Integrity."

[👁 pages 97 ff and pages 123 ff](#)

Corporate governance statement

The corporate governance statement pursuant to Section 289a and Section 315 Subsection 5 of the German Commercial Code (HGB) is part of this combined management report. It can be found in this annual report [on pages 207 ff](#) and can also be viewed on the Internet at daimler.com/corpgov/en. Pursuant to Section 317 Subsection 2 Sentence 4 of the German Commercial Code (HGB), the contents of the statement pursuant to Section 289a and Section 315 Subsection 5 of the HGB are not included in the audit carried out by the external auditors.

B.04

Cost of capital

	2016	2015
In percent		
Group, after taxes	8	8
Industrial business, before taxes	12	12
Daimler Financial Services, before taxes	13	13

Economic Conditions and Business Development

The world economy

With real growth of about 2.5% in the year under review, the world economy had its weakest growth performance since the financial crisis in 2009. **B.05** Unlike in the previous year, this was caused not only by the continuation of disappointing economic developments in the emerging markets, but also by a distinct slowdown of growth dynamism in the industrialized countries. A particularly negative factor was the uncertainty connected with geopolitical developments such as the outcome of the British EU referendum, the attempted coup in Turkey and the ongoing conflicts in Syria and Ukraine. After the weakest start to the year for several decades, global stock markets recovered as the year progressed, but with significant volatility. Raw-material prices also increased slightly again following an initial continuation of the downward trend.

In the generally rather difficult economic environment, the economies of the industrialized countries posted growth of approximately 1.5%, which is below the prior-year rate of 2.2%. This applies also to the US economy, which with growth in output of 1.6% was significantly below the rates of the previous years. While private consumption was still relatively firm, investment by companies stagnated. According to recent estimates, the Japanese economy hardly contributed towards global growth with an increase in gross domestic product (GDP) of just under 1%.

Among the industrialized countries, it was only the economy of the European Monetary Union that was able to develop in line with its potential, demonstrating a high degree of resilience despite ongoing political risks with GDP growth of approximately 1.5%. But with the continuation of unusually low inflation rates and a hesitant recovery of lending activities, the European Central Bank supported the economic development by once again increasing its already very expansive measures. The German economy had another very successful year with GDP growth of 1.9%. Although negative effects of the Brexit referendum were already apparent in the second half of the year, GDP growth in the United Kingdom remained generally solid at about 2%.

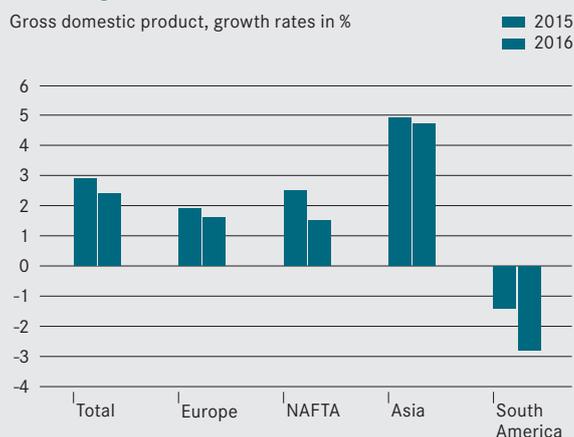
The economic development of the emerging markets was once again disappointing; with a rate of 3.5%, their growth was only slightly higher than in the year of the financial crisis. This was primarily due to the very unfavorable state of the economies of South America, Russia and the Middle East. Although raw-material prices recovered slightly during the year, countries with significant exports of raw materials suffered from the continuation of low prices. However, fears expressed at the beginning of the year concerning the Chinese economy were not confirmed; on the contrary, with support from fiscal and monetary policies, the country's economic situation improved, and robust growth of approximately 6.7% was achieved.

In this partially very difficult global economic environment, currency exchange rates were once again very volatile. Against the US dollar, the euro moved during the year between \$1.03 and \$1.16. At the end of the year, however, the euro stood at \$1.05, which is only slightly lower than at the end of 2015 (\$1.09). The range of fluctuation of the Japanese yen against the euro was distinctly wider, with a corridor of 111 to 133 yen to the euro. At the end of the year, the euro had fallen against the yen by about 6% compared with the end of 2015. Due to the British referendum result in favor of leaving the European Union, the British pound came under considerable pressure and had fallen by about 14% against the euro by the end of the year. Contrary to the previous year, currencies such as the Brazilian real and the Russian ruble climbed by about 25% against the euro.

B.05

Economic growth

Gross domestic product, growth rates in %



Source: IHS Global Insight, own calculations

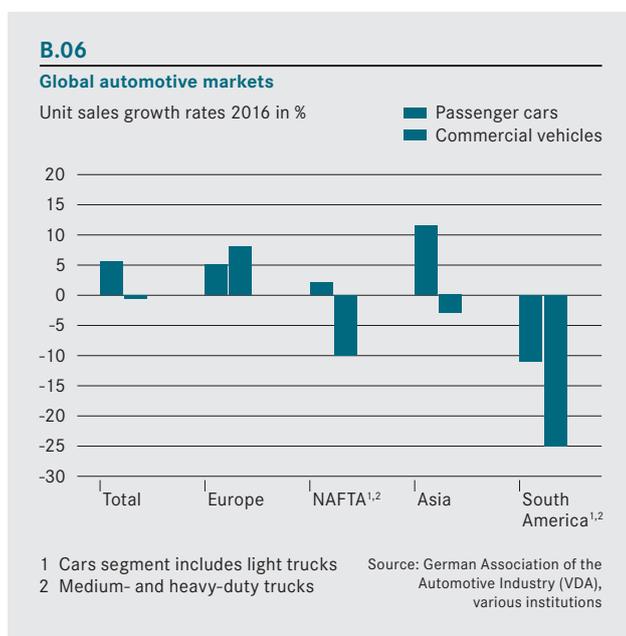
Automotive markets

Despite the relatively weak world economy, global **demand for cars** continued its favorable development in 2016. From the starting point of last year's record level, worldwide car sales increased by just over 5%. However, this result was significantly boosted by the strong market growth in China. Otherwise, global demand was rather mixed. The European market posted significant growth, while the US market grew only slightly. The development of demand in the major emerging markets remained varied. ➔ **B.06**

Once again, the Chinese market made by far the biggest contribution to the growth of the world market. This was partially due to the gradual acceleration of the country's economic growth during the year, as well as state tax incentives for purchasers of cars with small engines, which boosted demand by approximately 18%. Especially in the later months, the planned reduction in the incentives at year-end led to a sharp increase in sales figures.

Demand for cars in Western Europe continued its positive development. Despite increasing political uncertainty, market recovery continued with an increase of about 6%. This growth took place on a broad basis. Demand in the core markets of Germany and France remained very robust with increases of 4.5% and approximately 5% respectively. The British market has so far been unaffected by the Brexit vote and with growth of just over 2% reached a new record volume of approximately 2.7 million cars sold. The strongest growth of all Western European volume markets of 16% was recorded in Italy, although this came from a relatively low level. The Russian car market continued to be difficult and contracted again significantly.

The US market for cars and light trucks expanded slightly compared with the previous year and reached a new record volume of approximately 17.5 million vehicles. The SUV and pickup segments developed significantly better than demand for traditional sedans. The Japanese car market posted a moderate correction, with contraction of about 1.5%. The Indian market once again grew significantly. But demand for cars in Brazil decreased again by a double-digit rate.



Worldwide **demand for medium- and heavy-duty trucks** was affected much more by the rather weak world economy than the car segment. In the sale markets relevant for us, demand was in total significantly lower than in 2015.

The North American market suffered from weaker overall investment. In weight classes 6-8, market volume contracted by 12%. The drop in demand was especially severe in the high-margin, heavy-duty segment (class 8) with a fall of approximately 20%, while the medium-duty segment (classes 6-7) actually grew by about 5%.

The market of the EU30 region (European Union, Switzerland and Norway) once again enjoyed strong growth of approximately 11%, but with significant deceleration towards the end of the year. The large individual markets expanded, some of them significantly. Although the British market weakened somewhat following the Brexit referendum, it was still stronger than in 2015 over the full year. Considerable political uncertainty and the purchases brought forward due to the introduction of the Euro VI emission standard on January 1, 2016 meant that demand in Turkey slumped by more than 45% compared with the previous year. The Brazilian market contracted significantly once again. Starting from an already very low level, sales decreased again by approximately 30%. Demand for trucks in Russia stabilized during the year, however, and was slightly above the low prior-year level. There was a strong market recovery in China, where the number of trucks sold increased by about 40%.

From Daimler's perspective, the main Asian markets were rather mixed. The Japanese market for light-, medium- and heavy-duty trucks expanded slightly despite rather sluggish economic growth, and therefore remained at a solid level. However, demand in Indonesia was still weak and decreased by more than 10% from the previous year's low level. The Indian market for medium- and heavy-duty trucks expanded slightly compared with 2015. While demand was 25% above the prior-year level in the first half of the year, it weakened considerably in the second half. This was mainly caused by uncertainty regarding the planned reform of value-added tax, which could significantly improve the tax conditions for truck purchases in India in 2017.

Demand for vans in Western Europe continued to grow in 2016. The market volume increased for mid-size and large vans by 14% and for small vans by 11%. The overall van market in Germany grew by 12%. The US market for large vans also continued its very positive development with growth of 14%. In China, however, there was significant contraction of the market segment we address there. Due to the unfavorable economic situation, the market for large vans in Latin America contracted sharply once again.

The market volume for **buses** in the EU30 region expanded by approximately 5% compared with the previous year. Due to the continuation of difficult economic conditions, demand in Brazil was significantly below the prior-year level, with contraction of about 34%. As a result of the currently difficult situation, domestic demand in Turkey decreased significantly compared with 2015.

Business development

Unit sales

Daimler increased its total unit sales in the year 2016 by 5% to approximately 3 million vehicles, thus achieving its growth target. The Mercedes-Benz Cars and Mercedes-Benz Vans divisions confirmed the forecasts made at the beginning of the year with significant growth (+10% and +12% respectively). Daimler Trucks posted a significant decrease in unit sales of 17%. At the beginning of the year, the division had aimed for unit sales in the magnitude of the previous year. That target had to be successively adjusted as a result of the significantly less favorable market development in the NAFTA region, the Middle East and Turkey. Also at Daimler Buses, unit sales were significantly below the prior-year level (-7%) and did not reach the originally anticipated volume, primarily due to repeated significant market contraction in Brazil.

The **Mercedes-Benz Cars** division continued along its growth path in the year under review. Unit sales increased by 10% to the new record of 2,198,000 vehicles. The Mercedes-Benz brand increased its unit sales by 9% to a best-ever figure of 2,053,500 vehicles. This means not only that Mercedes-Benz grew faster than the worldwide car market, but also that it delivered more vehicles in the premium segment than any other manufacturer. We are the number one in the premium segment in Germany and some other key European markets, as well as in the United States, Canada and Japan. In addition, we significantly improved our position in China in 2016.

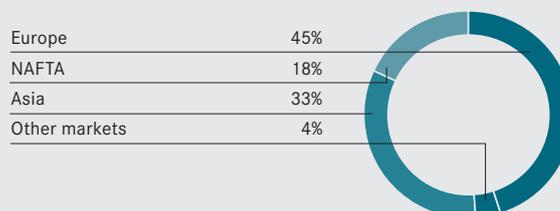
In Europe, Mercedes-Benz sold a total of 872,200 vehicles (+12%). Double-digit growth rates were achieved above all in the volume markets of the United Kingdom (+15%), France (+18%), Italy (+16%) and Spain (+20%). And in Germany, we increased our unit sales by 6% to 275,900 vehicles. In China, we grew by 20% in 2016 – faster than the overall market and important competitors. Total unit sales in the NAFTA region were slightly lower than in the previous year. Growth was achieved in Mexico, while our unit sales in the United States and Canada decreased slightly. Unit sales in Japan were 6% lower than in 2015 due to the general market development. However, we achieved significant growth in South Korea (+33%), Australia (+17%) and Taiwan (+12%).

The growth was primarily driven by our SUVs; total unit sales in that segment increased by 31% to 712,100 vehicles. Demand was very strong also for our A- and B-Class models, with an increase of 2%. Including the CLA and CLA Shooting Brake, 435,400 of those cars were delivered. Our C-Class models enjoyed ongoing success, with a 4% increase in unit sales to a total of 490,200 sedans, wagons, coupes and convertibles in 2016. In the year of the model change, the E-Class almost matched the prior-year volume, with the new model creating strong sales impetus as of the third quarter. We sold a total of 304,200 vehicles in the E-Class segment, including 188,300 units of the new model. Although there was a decrease in sales of the S-Class for lifecycle reasons to 84,300 units (2015: 106,200), it continues to be the world's bestselling luxury sedan.

➤ B.07

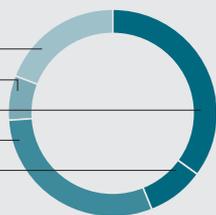
B.07

Unit sales structure of Mercedes-Benz Cars



B.08**Unit sales structure of Daimler Trucks**

EU30	19%
Latin America	7%
NAFTA	35%
Asia	30%
Other markets	9%



The smart brand reached a sales milestone in September 2016, with more than two million vehicles sold since its market launch in 1998. Meanwhile, smart is represented in 46 markets worldwide. In the year 2016, the brand's unit sales increased by 19% to the new record of 144,400 cars. [👁 pages 182 ff](#)

Unit sales by **Daimler Trucks** in 2016 were significantly lower than in the previous year. In total, we delivered 415,100 heavy-, medium- and light-duty trucks as well as buses of the Thomas Built Buses and FUSO brands (2015: 502,500). Daimler Trucks continues to be the world's biggest manufacturer of trucks above 6 tons. [➔ B.08](#)

B.09**Market share¹**

	2016	2015	16/15
In %			Change in % points
Mercedes-Benz Cars			
European Union	6.2	5.8	+0.4
thereof Germany	10.4	10.1	+0.3
United States	2.0	2.0	+0.0
China	2.1	1.9	+0.2
Japan	1.7	1.6	+0.1
Daimler Trucks			
Medium- and heavy-duty trucks EU30 (excluding the UK)	21.6	22.4	-0.8
thereof Germany	37.2	36.9	+0.3
Heavy-duty trucks NAFTA region (class 8)	40.0	39.3	+0.7
Medium-duty trucks NAFTA region (classes 6 and 7)	37.9	39.7	-1.8
Medium- and heavy-duty trucks Brazil	29.8	26.7	+3.1
Trucks Japan	20.4	20.8	-0.4
Trucks Indonesia	46.7	48.0	-1.3
Medium- and heavy-duty trucks India	6.8	7.3	-0.5
Mercedes-Benz Vans			
Mid-size and large vans Western Europe	18.4	18.4	0
thereof Germany	27.3	27.1	+0.2
Small vans Western Europe	3.1	3.2	-0.1
Large vans United States	7.6	8.7	-1.1
Daimler Buses			
Buses over 8 tons EU30	29.7	29.5	+0.2
thereof Germany	50.1	49.3	+0.8
Buses over 8 tons Brazil	58.4	52.5	+5.9

¹ Based on estimates in certain markets.

Positive market impetus was delivered by the EU30 region (European Union, Switzerland and Norway), although with decreasing dynamism in the second half of the year. Our sales in this region increased by 4% to 79,800 trucks. The Mercedes-Benz brand remained the market leader in the medium- and heavy-duty segment (excluding the United Kingdom) with a share of 21.6% (2015: 22.4%). In Turkey, our unit sales fell by more than half to 9,300 vehicles in the year under review (2015: 24,900). This drastic slump was caused by weak demand caused by purchases being brought forward to 2015 due to the introduction of the Euro VI emission standard at the beginning of 2016, as well as the country's difficult situation. [➔ B.09](#)

Unit sales in Latin America decreased significantly once again to 27,500 vehicles, due in particular to the deep recession in Brazil, our main market in that region (2015: 30,500). In this environment, we were able to achieve market leadership and increased our market share in the medium- and heavy-duty segment in Brazil with trucks of the Mercedes-Benz brand to 29.8% (2015: 26.7%). Irrespective of the currently difficult situation, we believe in the long-term importance of the Latin American market.

Also in the NAFTA region, we were unable to avoid the impact of a sharply contracting market for class 8 trucks. Our unit sales of 145,700 trucks were significantly below the unusually high number sold in the previous year (2015: 191,900). But in classes 6-8, we are the market leader by a significant margin with a market share of 39.3% (2015: 39.4%). In class 8 for heavy trucks, we increased our market share to 40.0% (2015: 39.3%).

We increased our sales in Japan to 46,400 units (2015: 45,600). With the FUSO brand, we achieved a share of the overall truck market in Japan of 20.4% (2015: 20.8%). In an Indonesian market that once again contracted sharply, our unit sales fell to 28,000 vehicles (2015: 32,100). With a share of 46.7% of the overall truck market, we continue to be the market leader by a large margin (2015: 48.0%).

In India, our sales of 13,100 trucks were lower than in the previous year (2015: 14,000); our market share was 6.8% (2015: 7.3%). Deliveries of the export vehicles produced in Chennai to customers in Asia, Latin America and Africa more than doubled to over 4,000 units in 2016. Meanwhile, more than 30 markets are supplied with trucks from Chennai.

In the Middle East, our sales decreased substantially to 17,600 units (2015: 36,300). The main reasons for the low level of investment there in 2016 were the low oil price and the ongoing conflicts in the region.

In China, the world's biggest truck market, Daimler AG holds a 50% interest in Beijing Foton Daimler Automotive Co. Ltd. (BFDA), a joint venture with Beiqi Foton Motor Co. Ltd. Medium- and heavy-duty trucks of the Auman brand have been produced there since mid-2012. With the recovery of the Chinese truck market in 2016, the joint venture increased its sales of Auman trucks to 77,800 units (2015: 69,200). [pages 188 ff](#)

Mercedes-Benz Vans once again achieved record sales of 359,100 vehicles in 2016, surpassing the prior-year figure by 12%. While we primarily focus on commercial customers with the Sprinter, Vito and Citan models, the V-Class is primarily aimed at private users. In the EU30 region, our most important market, we increased our unit sales by 13% to 249,900 vehicles, and we continue to be the market leader for mid-size and large vans with a share of 18.4% (2015: 18.4%). Significant growth was achieved in the key European volume markets, and the division achieved a new record in Germany with sales of 96,100 units (2015: 88,400). However, unit sales decreased significantly in Russia (-15%) and Turkey (-7%). Mercedes-Benz Vans continued along its growth path in the NAFTA region; sales there increased significantly to 43,400 units (2015: 40,500) and the division's market share for large vans in the United States reached 7.6% (2015: 8.7%). The market environment in Latin America remained difficult and sales therefore decreased by 21% to 12,500 units. In China, following the successful start of our vans in the midsize segment (Vito and V-Class), unit sales increased compared with the previous year by 90% to 13,600 vehicles. In total, we sold 193,400 Sprinter vans worldwide in the reporting period (2015: 194,200). Sales of the Vito increased by 24% to 92,100 units. The V-Class multipurpose vehicle was particularly successful; sales of 48,700 units surpassed the prior-year number by 58%. Sales of the Mercedes-Benz Citan reached 24,900 units (2015: 21,700). [pages 193 ff](#)

Daimler Buses sold 26,200 buses and bus chassis in 2016 (2015: 28,100). The significant decrease is due in particular to the ongoing difficult economic situation in Brazil. Nonetheless, the division maintained its clear market leadership in its traditional core markets of the EU30, Brazil, Turkey, Argentina and Mexico. The business with complete buses in the EU30 region developed positively. Sales here increased by 3% to 8,800 units and market share was once again at the very high level of 29.7% (2015: 29.5%). Due to strong demand for our Mercedes-Benz and Setra buses, unit sales in Germany increased to 3,100 vehicles (2015: 2,800). As a result of the currently difficult situation in Turkey, our sales of 600 units there were significantly below the prior-year number (2015: 1,000). The situation in Latin America (excluding Mexico) worsened again considerably because of the ongoing difficult economy there, especially in Brazil. Unit sales of Mercedes-Benz bus chassis once again fell by a double-digit rate in Brazil (-32%) to 4,900 units. Nonetheless, we were able to significantly strengthen our leading market position in Brazil with a market share of 58.4% (2015: 52.5%). In Mexico, sales of 3,800 units were slightly lower than in the previous year (2015: 4,000), whereby a stable market share was maintained at the high level of the previous year.

[pages 196 ff](#)

Business at the **Daimler Financial Services** division developed positively in the year under review. As we had forecast in Annual Report 2015, worldwide contract volume continued to grow, reaching the new record level of €132.6 billion (+14%). The acquisition of Athlon Car Lease International B.V. contributed €3.7 billion of the growth in contract volume. Adjusted for exchange-rate effects and the Athlon acquisition, contract volume grew by 10%. New business also increased in the magnitude we had anticipated: by 7% to €61.8 billion. Significant growth was recorded in Europe (+9%) while the prior-year level was not quite reached in the Americas region (-2%). The growth of new business in the Africa and Asia-Pacific region was once again particularly dynamic at a rate of 18%. In the insurance business, we brokered a total of 1.8 million policies, as in 2015. Daimler Financial Services supported numerous companies with the financing and management of their vehicles and fleets in 2016. At the end of the year, the division had a total of 361,000 vehicles on its books in Europe. With last year's acquisition of Athlon, we invested in the growth of the fleet-management business and considerably strengthened our competitive position. Athlon accounted for 268,000 contracts with fleet customers. We further expanded the business with innovative mobility services in 2016. car2go had more than 2.2 million users at the end of the year and is thus the world's leader for flexible car sharing. We also further developed the moovel app, with which customers in Germany can find the best way of traveling from A to B using various modes of transport, and can directly book and pay providers such as car2go, mytaxi and Deutsche Bahn (German Railways). In April, Hamburg was the first city with more than a million inhabitants to be integrated into the moovel app. Since then, it has been possible to book and pay for journeys in the entire Hamburg public transport system. In addition, the moovel Group has consolidated its activities in North America: GlobeSherpa has been merged into RideScout and renamed as moovel North America. With moovel transit, moovel North America is the leading provider of mobile ticket solutions for the apps of public transport companies in the United States. The company has more than 2.2 million users in Germany and the USA. In July, mytaxi and Hailo, two leading app-based taxi providers, decided to join forces and merge into one company. Based in Hamburg, it operates under the mytaxi brand, and is the biggest European taxi network with 100,000 drivers and approximately six million customers in more than 50 cities in nine countries.

[pages 199 ff](#)

Order situation

The Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Buses divisions produce vehicles predominantly to order in accordance with customers' specifications. In doing so, we flexibly adjust production numbers to changing levels of demand. Due in particular to strong demand in China and the European markets, the number of orders placed with Mercedes-Benz Cars was once again above the high level of orders recorded in the previous year. This was driven on the product side primarily by our very successful SUVs and, as of the second half of the year, also by the new E-Class models. Due to the positive development of demand, we significantly increased our production volumes. Nonetheless, the order backlog at the end of 2016 was higher than a year before. At Daimler Trucks, both orders received and order backlog at year-end were significantly lower than a year earlier. This primarily reflects the low demand in the market for heavy-duty trucks in the NAFTA region and the ongoing market weakness in the Middle East and Turkey.

Revenue

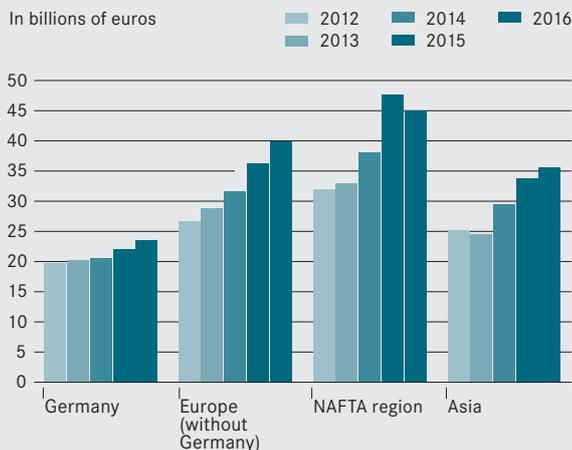
In the year 2016, Daimler generated revenue of €153.3 billion, which is slightly above the prior-year level (2015: €149.5 billion); adjusted for exchange-rate effects, revenue grew by 3%. This means that our expectations at the beginning of the year were fulfilled. Each of the divisions Mercedes-Benz Cars (+7%), Mercedes-Benz Vans (+12%) and Daimler Financial Services (+9%) significantly increased its volume of business. Whereas the Daimler Trucks division posted a significant decrease in revenue of 12%, primarily due to the very weak condition of some major truck markets, which we had not anticipated at the beginning of the year. At Daimler Buses, revenue was 2% higher than in the previous year.

In regional terms, Daimler achieved revenue growth in Europe (+9% to €63.4 billion) and in Asia (+5% to €35.6 billion) while the prior-year level was not quite achieved in the NAFTA region (-6% to €45.0 billion).

B.10

Consolidated revenue by region

In billions of euros



B.11

Revenue by division and region

	2016	2015	16/15
In millions of euros			
			% change
Daimler Group	153,261	149,467	+3
Divisions			
Mercedes-Benz Cars	89,284	83,809	+7
Daimler Trucks	33,187	37,578	-12
Mercedes-Benz Vans	12,835	11,473	+12
Daimler Buses	4,176	4,113	+2
Daimler Financial Services	20,660	18,962	+9
Regions			
Europe	63,417	58,247	+9
thereof Germany	23,509	22,001	+7
NAFTA	44,960	47,653	-6
thereof United States	39,169	41,920	-7
Asia	35,562	33,744	+5
thereof China	15,984	14,684	+9
Other markets	9,322	9,823	-5

Profitability

EBIT

The **Daimler Group** achieved EBIT of €12.9 billion in 2016 (2015: €13.2 billion). [↗ B.12](#) [↗ B.13](#)

Despite higher expenses in connection with Takata airbags and from the remeasurement of inventories, the Mercedes-Benz Cars division slightly improved on its prior-year earnings. This was the result of further growth in unit sales, especially in the SUV segment. Daimler Trucks did not achieve its high earnings of the previous year as a result of market-related decreases in unit sales in some key markets. The Mercedes-Benz Vans division increased its EBIT significantly as a result of higher unit sales. The Daimler Buses division achieved EBIT significantly above the prior-year level as well. At Daimler Financial Services, earnings increased slightly primarily due to the growth in contract volume.

The reconciliation of segment earnings to Group EBIT resulted in significantly lower income than in the previous year. The reconciliation was impacted in particular by expenses in connection with legal proceedings, by the impairment of the investment in BAIC Motor Corporation Ltd. (BAIC Motor) and by losses from currency transactions which are not allocated to business operations. The gain recognized on the contribution of 3.1% of the shares of each of Renault and Nissan into the German pension plan assets had a positive impact on earnings.

EBIT adjusted for special items fundamentally constitutes EBIT excluding the impact of any unusual factors. They can also include such special items that have a significant effect on the comparison of EBIT for the reporting period with EBIT for the previous year, such as expenses from restructuring and from impairments. The special items affecting earnings in the years 2015 and 2016 are shown in table [↗ B.14](#).

Due to the favorable business development in most divisions, Daimler was able to exceed slightly its prior-year **EBIT adjusted for special items** of €13.8 billion, achieving €14.2 billion in 2016, which is in line with our expectations as stated in the Outlook section of Annual Report 2015. [↗ B.12](#)

B.12

EBIT by segment

In millions of euros	2016	2015	EBIT	EBIT adjusted for special items		
			16/15	2016	2015	16/15
			% change			% change
Mercedes-Benz Cars	8,112	7,926	+2	8,927	8,343	+7
Daimler Trucks	1,948	2,576	-24	2,053	2,742	-25
Mercedes-Benz Vans	1,170	880	+33	1,302	952	+37
Daimler Buses	249	214	+16	258	202	+28
Daimler Financial Services	1,739	1,619	+7	1,739	1,619	+7
Reconciliation	-316	-29	.	-36	-29	.
Daimler Group ¹	12,902	13,186	-2	14,243	13,829	+3

¹ EBIT, the indicator of operating performance, comprises earnings before interest income and corporate income taxes. The reconciliation of the Daimler Group's EBIT to earnings before income taxes is included in Note 33 of the Notes to the Interim Consolidated Financial Statements.

B.13**Development of earnings**

In billions of euros

**B.14****Special items affecting EBIT**

In millions of euros

	2016	2015
Mercedes-Benz Cars		
Expenses in connection with Takata airbags	-480	-300
Expenses in connection with remeasurement of inventories	-238	-
Settlement in connection with a patent dispute	-64	-
Restructuring of own dealer network	-33	-64
Public-sector levies related to prior periods	-	-121
Relocation of headquarters of MBUSA	-	-19
Sale of real estate in the United States	-	+87
Daimler Trucks		
Workforce adjustments	-91	-58
Restructuring of own dealer network	-14	-47
Sale of Atlantis Foundries	-	-61
Mercedes-Benz Vans		
Expenses in connection with Takata airbags	-83	-40
Workforce adjustments in Germany	-38	-
Restructuring of own dealer network	-11	-29
Relocation of headquarters of MBUSA	-	-3
Daimler Buses		
Workforce adjustments	-9	-
Restructuring of own dealer network	-	-4
Sale of investment in New MCI Holdings Inc.	-	+16
Reconciliation		
Expenses related to legal proceedings	-400	-
Impairment of investment in BAIC Motor	-244	-
Losses from currency transactions (not allocated to business operations)	-241	-
Contribution of shares in Renault and Nissan to pension plan assets	+605	-

The Mercedes-Benz Cars division slightly increased its EBIT adjusted for special items in 2016 and thus met the forecasts made in Annual Report 2015. The Daimler Trucks division's EBIT in 2016 did not reach the prior-year level as forecast in Annual Report 2015. We adjusted those assessments downwards as the year progressed, as the division's unit sales decreased faster than expected in some key markets. In addition, the European market situation featured very intense competition. The earnings of Mercedes-Benz Vans developed better than we had forecast at the beginning of the year. We had anticipated a slight improvement compared with the previous year. We adjusted those assessments upwards as the year progressed in the context of our quarterly reporting, as the division's unit sales increased faster than expected. Due to the strong business with complete buses in the EU30 region, Daimler Buses achieved significantly higher EBIT than in the previous year and surpassed the forecast made in Annual Report 2015. Daimler Financial Services slightly increased its EBIT adjusted for special items and met the forecasts made in Annual Report 2015.

Mercedes-Benz Cars posted EBIT of €8,112 million in 2016, which is slightly above the prior-year figure of €7,926 million. The division's return on sales was 9.1% (2015: 9.5%) ↗ **B.15**

This positive development primarily reflects the increased unit sales of new vehicles. The main driver was the SUV segment. Another positive effect on EBIT resulted from a better pricing. Negative effects resulted from expenses for advance expenditure for new technologies and vehicles. EBIT also includes expenses of €480 million in connection with Takata airbags. Further expenses of €238 million were recognized from the remeasurement of inventories and of €64 million for a settlement in connection with a patent dispute.

The automotive divisions' earnings were also reduced by a total expense of €58 million from the restructuring of Daimler's own dealership network (2015: €144 million). In this context, we refer to the information provided in Note 5 of the Notes to the Consolidated Financial Statements.

Daimler Trucks achieved EBIT of €1,948 million (2015: €2,576 million), which is significantly lower than the high prior-year figure. The division's return on sales was 5.9% (2015: 6.9%). ↗ **B.15**

The negative development of earnings was primarily the result of sharply decreased unit sales in the NAFTA region, Turkey, the Middle East, Latin America and Indonesia. Earnings were also reduced by the intense competition in Europe. The realization of efficiency and material-cost improvements and exchange-rate effects had a positive impact on earnings. EBIT also includes expenses of €91 million for workforce adjustments in the context of the ongoing optimization programs in Brazil.

Mercedes-Benz Vans achieved EBIT of €1,170 million in the year 2016, significantly higher than its prior-year earnings of €880 million. The division's return on sales also increased significantly, to 9.1% from 7.7% in 2015. [↗ B.15](#)

EBIT reflects the very positive development of unit sales, especially in Europe, the NAFTA region and China, as well as efficiency improvements. On the other hand, expenses arose from advance expenditure for new technologies and vehicles. Expenses of €83 million resulted in connection with Takata airbags and of €38 million from a voluntary severance program at the Düsseldorf plant.

The **Daimler Buses** division's EBIT of €249 million in 2016 (2015: €214 million) was significantly above the high prior-year figure; the division achieved a return on sales of 6.0% (2015: 5.2%). [↗ B.15](#)

The strong business with complete buses in the EU30 region, a good product-mix and positive exchange-rate effects more than offset the negative effects of weak demand for bus chassis due to the ongoing difficult economic situation in Latin America and lower unit sales in Turkey. Higher expenses from advance expenditure for new technologies and vehicles and cost inflation were partially offset by efficiency improvements.

Daimler Financial Services posted EBIT of €1,739 million in 2016, thus slightly surpassing its prior-year earnings (2015: €1,619 million). The division's return on equity was 17.4% (2015: 18.3%). [↗ B.16](#)

This positive development was mainly the result of increased contract volume, but earnings were reduced by negative exchange-rate effects.

The **reconciliation** of the divisions' EBIT to Group EBIT comprises gains and/or losses at the corporate level and the effects on earnings of eliminating intra-group transactions between the divisions.

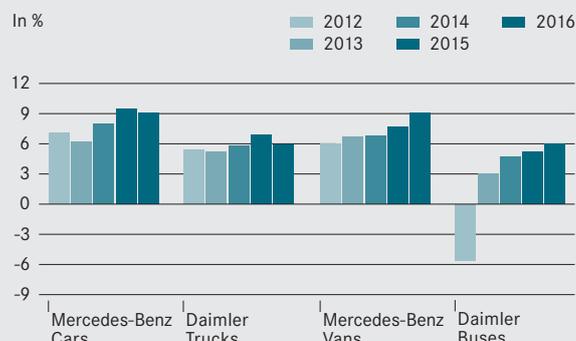
Items at the corporate level resulted in an overall expense of €333 million (2015: €79 million). This includes expenses of €400 million related to legal proceedings, the impairment of Daimler's investment in BAIC Motor of €244 million and losses from currency transactions of €241 million (2015: €43 million). The gain of €605 million recognized on the contribution of the Renault and Nissan shares into the German pension plan assets did not offset those expenses.

The elimination of intra-group transactions resulted in income of €17 million in 2016 (2015: €50 million).

The reconciliation of Group EBIT to profit before income taxes is shown in table [↗ B.17](#).

B.15

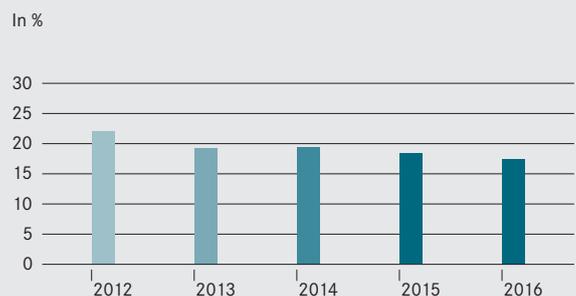
Return on Sales



B.16

Return on Equity

Daimler Financial Services



B.17

Reconciliation of Group EBIT to profit before income taxes

	2016	2015
In millions of euros		
Group EBIT	12,902	13,186
Amortization of capitalized borrowing costs ¹	-12	-10
Interest income	230	170
Interest expense	-546	-602
Profit before income taxes	12,574	12,744

¹ Amortization of capitalized borrowing costs is not included in the internal performance measure EBIT, but is a component of cost of sales.

Consolidated statement of income

The Group's **total revenue** increased by 2.5% to €153.3 billion in 2016; adjusted for exchange rate effects, it increased by 3.3%. The revenue growth reflects the demand for our products at Mercedes-Benz Cars and Mercedes-Benz Vans, as well as the increased contract volume at Daimler Financial Services. Further information on the development of revenue is provided in the [“Business development”](#) section of this Management Report. [↗ B.18](#)

Cost of sales amounted to €121.3 billion in 2016, increasing by 2.8% compared with the previous year. The rise in cost of sales was caused by higher business volumes and consequently higher material expenses. Personnel expenses and depreciation of equipment on operating leases also increased. Further information on cost of sales is provided in [Note 5](#) of the Notes to the Consolidated Financial Statements. [↗ B.18](#)

Gross profit therefore increased by 1.6% overall.

Due to the growth in unit sales, **selling expenses** increased by €0.1 billion to €12.2 billion. In addition, there were higher expenses for marketing. As a percentage of revenue, selling expenses decreased from 8.1% to 8.0%. [↗ B.18](#)

General administrative expenses of €3.4 billion were at the same level as in the previous year (2015: €3.4 billion). As a percentage of revenue, general administrative expenses remained unchanged compared with the previous year at 2.2%. [↗ B.18](#)

Research and non-capitalized development costs increased by €0.5 billion to €5.3 billion in 2016. They were mainly related to the development of new models, advance expenditure for the renewal of existing models and the further development of fuel-efficient and environmentally friendly drive systems, as well as safety technologies, autonomous driving, and the digital connectivity of our products. As a proportion of revenue, research and non-capitalized development costs increased from 3.2% to 3.4%. Further information on the Group's research and development costs is provided in the “Research and development” section of the “Sustainability” chapter of this Management Report. [↗ B.18](#)

Other operating income increased to €2.4 billion (2015: €2.1 billion). **Other operating expense** increased significantly in the year 2016 to €1.3 billion (2015: €0.6 billion), due in particular to expenses connected with legal proceedings of €0.4 billion. Further information on the composition of other operating income and expense is provided in Note 6 of the Notes to the Consolidated Financial Statements. [↗ B.18](#)

In 2016, our **share of profit from equity-method investments** amounted to €0.5 billion and was at the prior-year level (2015: €0.5 billion). The negative impact on earnings of €0.2 billion from the impairment of the shares in BAIC Motor was almost fully offset by the improved earnings from Beijing Benz Automotive Co., Ltd. (BBAC). [↗ B.18](#)

Other financial expense/income increased from an expense of €27 million to income of €0.3 billion. This significant increase is primarily the result of recognizing a gain of €0.6 billion from the contribution of the equity interests in Renault and Nissan at fair value into the pension-plan assets. Those gains were previously presented within other comprehensive income/loss. [↗ B.18](#)

Net interest expense improved by €0.1 billion to €0.3 billion (2015: €0.4 billion). [↗ B.18](#)

The tax expense of €3.8 billion (2015: €4.0 billion) stated under **income tax expense** decreased at a higher rate than profit before income taxes. The effective tax rate for 2016 was 30.1% (2015: 31.6%). This was mainly due to the contribution of our shares in Renault and Nissan into the pension-plan assets. The gain resulting from the contribution was largely tax free. Adjusted for this gain, profit subject to normal income taxes decreased in 2016 compared with the previous year, which is the reason for the lower tax expense. [↗ B.18](#)

B.18

Consolidated statement of income

	2016	2015	16/15
In millions of euros			% change
Revenue	153,261	149,467	+3
Cost of sales ¹	-121,298	-118,017	+3
Gross profit	31,963	31,450	+2
Selling expenses	-12,226	-12,147	+1
General administrative expenses ¹	-3,419	-3,363	+2
Research and non-capitalized development costs	-5,257	-4,760	+10
Other operating income	2,350	2,114	+11
Other operating expense	-1,298	-555	+134
Share of profit from equity-method investments, net	502	464	+8
Other financial expense, net	275	-27	.
Interest income	230	170	+35
Interest expense	-546	-602	-9
Profit before income taxes	12,574	12,744	-1
Income taxes	-3,790	-4,033	-6
Net profit	8,784	8,711	+1
thereof attributable to non-controlling interests	258	287	-10
thereof attributable to shareholders of Daimler AG	8,526	8,424	+1

¹ In the year 2015, €347 million was reclassified from general administrative expenses into cost of sales (see Note 5 of the Notes to the Consolidated Financial Statements).

Net profit for the year amounts to €8.8 billion (2015: €8.7 billion). Net profit of €0.3 billion is attributable to non-controlling interests (2015: €0.3 billion). Net profit **attributable to the shareholders of Daimler AG** amounts to €8.5 billion (2015: €8.4 billion), representing **earnings per share** of €7.97 (2015: €7.87). [↗ B.18](#)

The calculation of earnings per share (basic) is based on an unchanged average number of outstanding shares of 1,069.8 million.

Dividend

We aim to achieve a sustainable dividend development also in the coming years. In setting the dividend, our target is to distribute approximately 40% of the net profit attributable to Daimler shareholders. At the Annual Shareholders' Meeting on March 29, 2017, the Board of Management and the Supervisory Board will propose the payment of a dividend of €3.25 per share, as in the prior year. This represents a total distribution of €3.5 billion (prior year: €3.5 billion). With this proposal, we are letting our shareholders participate in the company's success. [↗ B.19](#)

Net operating profit

Table [↗ B.20](#) shows the reconciliation of the EBIT of the divisions to net operating profit. In addition to the EBIT of the divisions, net operating profit also includes earnings effects for which the divisions are not accountable, such as income taxes and other reconciliation items.

Value added

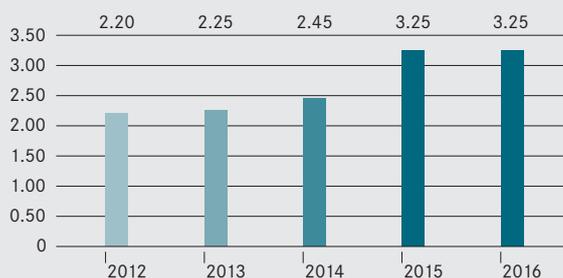
As described in the [👁️](#) "Performance measurement system" section of the "Corporate Profile" chapter in chart [↗ B.03](#), the cost of capital is the result of net assets and cost of capital expressed as a percentage, which is subtracted from earnings in order to calculate value added. The tables [↗ B.21](#) and [↗ B.22](#) show value added and net assets for the Group and for the individual divisions. Table [↗ B.23](#) shows how net assets are derived from the consolidated statement of financial position. In the context of fine tuning our performance measurement system, the definition of the net assets was adjusted in the year 2016 with retrospective effect as of 2015, and no longer includes hedging instruments, which are recognized in other comprehensive income until maturity. As a result of the adjustment, the amount of net assets in 2015 has been increased by €2.4 billion.

The **Group's value added** amounted to €5.2 billion in 2016 (2015: €5.4 billion), representing a return on net assets of 19.1% (2015: 20.1%). This was once again substantially higher than the minimum required rate of return of 8%. The slight decrease in value added was caused by the growth of average net assets mainly as a result of higher investment in fixed assets and higher inventory levels. The net operating profit remained at the previous year's level and was unable to offset the rise in cost of capital.

B.19

Dividend per share

In euros



B.20

Reconciliation to net operating profit

	2016	2015	16/15
In millions of euros			% change
Mercedes-Benz Cars	8,112	7,926	+2
Daimler Trucks	1,948	2,576	-24
Mercedes-Benz Vans	1,170	880	+33
Daimler Buses	249	214	+16
Daimler Financial Services	1,739	1,619	+7
EBIT of the divisions	13,218	13,215	+0
Income taxes ¹	-3,895	-4,179	-7
Other reconciliation	-316	-29	.
Net operating profit	9,007	9,007	+0

¹ Adjusted for income taxes on interest income/expense and amortization of capitalized borrowing costs.

B.21

Value added

	2016	2015	16/15
In millions of euros			% change
Daimler Group¹	5,243	5,423	-3
Mercedes-Benz Cars ¹	5,431	5,552	-2
Daimler Trucks ¹	935	1,595	-41
Mercedes-Benz Vans ¹	962	678	+42
Daimler Buses ¹	143	105	+36
Daimler Financial Services	439	467	-6

¹ Prior-year figures adjusted due to fine tuning the definition of net assets.

B.22**Net assets (average)**

	2016	2015	16/15
In millions of euros			% change
Mercedes-Benz Cars ¹	22,345	19,788	+13
Daimler Trucks ¹	8,448	8,176	+3
Mercedes-Benz Vans ¹	1,739	1,686	+3
Daimler Buses ¹	887	906	-2
Daimler Financial Services ²	10,000	8,859	+13
Net assets of the divisions	43,419	39,415	+10
Equity method investments ³	555	770	-28
Assets and liabilities from income taxes ⁴	3,372	3,772	-11
Other reconciliation ⁴	-292	839	-135
Daimler Group¹	47,054	44,796	+5

1 Prior-year figures adjusted due to fine tuning the definition of net assets.

2 Total equity.

3 To the extent not allocated to the segments.

4 Industrial business.

Value added at **Mercedes-Benz Cars** decreased slightly by €0.1 billion to €5.4 billion. This was mainly the result of the growth of average net assets to €22.3 billion, reflecting higher investment in fixed assets and higher inventory levels. EBIT increased slightly compared to the previous year's level. This development was driven by positive effects from higher sales of new vehicles and better pricing, with negative effects from expenses from advance expenditure for new technologies and vehicles, and expenses in connection with Takata airbags.

As a result of the EBIT development, **Daimler Trucks'** value added amounted to €0.9 billion, which is significantly below the high level of value added of the previous year (2015: €1.6 billion). This development was primarily the result of strong decreases in unit sales in the NAFTA region, Turkey, the Middle East, Latin America and Indonesia. Earnings were also reduced by the intense competition in Europe. In addition, the increase in average net assets as a result of higher investment in property, plant and equipment and higher inventories boosted the negative effect on value added.

Mercedes-Benz Vans' value added increased significantly by €0.3 billion to €1.0 billion. This was the result of the substantial improvement in EBIT, reflecting the very positive development of unit sales in Europe, the NAFTA region and China, as well as further efficiency improvements. Negative effects on earnings mainly came from higher expenses from advance expenditure for new technologies and vehicles and from expenses in connection with Takata Airbags. Average net assets were slightly higher than in the previous year.

The value added of the **Daimler Buses** division was substantially higher than in the previous year, reaching €143 million (2015: €105 million). This was primarily due to the development of EBIT. Positive effects mainly resulting from the good business with complete buses, a favorable product mix and positive exchange-rate effects more than offset the negative impact from weak demand for bus chassis in Latin America, lower unit sales in Turkey and higher expenses from advance expenditure for new technologies and vehicles. Average net assets remained nearly constant compared to the previous year.

Daimler Financial Services' value added of €0.4 billion was slightly under the level of 2015. The division's return on equity amounted to 17.4% (2015: 18.3%). The development of value added primarily reflects the increase in average equity of €1.1 billion. Offsetting effects came from the positive development of EBIT as a result of further growth in contract volume despite negative exchange-rate effects.

B.23**Net assets of the Daimler Group at year-end**

	2016	2015	16/15
In millions of euros			% change
Net assets of the industrial business			
Intangible assets	11,145	9,789	+14
Property, plant and equipment	26,314	24,262	+8
Leased assets	17,433	15,864	+10
Inventories	24,426	22,862	+7
Trade receivables	8,977	8,215	+9
Less provisions for other risks	-15,325	-15,198	+1
Less trade payables	-10,853	-10,182	+7
Less other assets and liabilities ¹	-26,727	-21,956	+22
Assets and liabilities from income taxes	2,935	3,055	-4
Total equity of Daimler Financial Services	10,448	9,872	+6
Net Assets¹	48,773	46,583	+5

1 Prior-year figures adjusted due to fine tuning the definition of net assets.

Liquidity and Capital Resources

Principles and objectives of financial management

Financial management at Daimler consists of capital structure management, cash and liquidity management, pension asset management, market-price risk management (foreign exchange rates, interest rates, commodity prices) and credit and financial country risk management. Worldwide financial management is performed within the framework of legal requirements consistently for all Group entities by Treasury. Financial management operates within a framework of guidelines, limits and benchmarks, and on the operational level is organizationally separate from other financial functions such as settlement, financial controlling, reporting and accounting.

Capital structure management designs the capital structure for the Group and its subsidiaries. Decisions regarding the capitalization of financial services companies – as well as production, sales and financing companies – are based on the principles of cost-optimized and risk-optimized liquidity and capital resources. In addition, it is necessary to comply with restrictions on capital transactions and on the transfer of capital and currencies.

Liquidity management ensures the Group's ability to meet its payment obligations at any time. For this purpose, the Group records the cash flows from operating and financial activities in a rolling plan. The resulting financial requirements are covered by the use of appropriate instruments for liquidity management (e.g. bank credits, commercial paper and notes); liquidity surpluses are invested in the money market or the capital market to optimize risk and return. The goal is to ensure the level of liquidity regarded as necessary at optimal costs. Besides operational liquidity, Daimler maintains additional liquidity reserves, which are available in the short term. Those additional financial resources include a pool of receivables from the financial services business which are available for securitization in the capital market, as well as a contractually confirmed syndicated credit facility with a volume of €9 billion.

Cash management determines the Group's cash requirements and surpluses. The number of external bank transactions is minimized by the Group's internal netting of cash requirements and surpluses. Netting is done by means of cash-concentration or cash-pooling procedures. Daimler has established standardized processes and systems to manage its bank accounts, internal cash-clearing accounts and the execution of automated payment transactions.

Management of market price risks aims to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the divisions and the Group. The Group's overall exposure to these market-price risks is determined to provide a basis for hedging decisions, which include the definition of hedging volumes and corresponding periods, as well as the selection of hedging instruments. Decisions regarding the management of risks resulting from fluctuations in foreign exchange rates and commodity prices, as well as decisions on asset/liability management (liquidity and interest rates), are regularly made by the relevant committees.

Management of pension assets includes the investment of pension assets to cover the corresponding pension obligations. Pension assets are legally separated from the Group's assets and are invested primarily in funds; pension assets are not available for general business purposes. The funds are allocated to different asset classes such as equities, fixed-interest securities, alternative investments and real estate, depending on the expected development of pension obligations and with the help of a process for risk-return optimization. The performance of asset management is measured by comparing with defined reference indices. Local custodians of the pension assets are responsible for the risk management of the individual pension assets. The Global Pension Committee limits these risks by means of group-wide binding guidelines, whereby applicable laws are given due consideration. Additional information on pension plans and similar obligations is provided in [Note 22](#) of the Notes to the Consolidated Financial Statements.

The risk volume that is subject to **credit risk management** includes all of Daimler's worldwide creditor positions with financial institutions, issuers of securities and customers in the financial services business and the automotive business. Credit risks with financial institutions and issuers of securities arise primarily from investments executed as part of our liquidity management and from trading in derivative financial instruments. The management of these credit risks is mainly based on an internal limit system that reflects the creditworthiness of the respective financial institution or issuer. The credit risk with customers of our automotive business relates to contracted dealerships and general agencies, other corporate customers and retail customers. In connection with the export business, general agencies that according to our creditworthiness analysis are not sufficiently creditworthy are generally required to provide collateral such as first-class bank guarantees. The credit risk with end-customers in the financial services business is managed by Daimler Financial Services on the basis of a standardized risk management process. In this process, minimum requirements are defined for the sales-financing and leasing business and standards are set for credit processes as well as for the identification, measurement and management of risks. Key elements for the management of credit risks are appropriate creditworthiness assessments, supported by statistical analyses and evaluation methods, as well as structured portfolio analysis and portfolio monitoring.

B.24

Condensed consolidated statement of cash flows

	2016	2015	16/15 Change
In millions of euros			
Cash and cash equivalents at beginning of period	9,936	9,667	+269
Cash provided by operating activities	3,711	222	+3,489
Cash used for investing activities	-14,666	-9,722	-4,944
Cash provided by financing activities	12,009	9,631	+2,378
Effect of exchange-rate changes on cash and cash equivalents	-9	138	-147
Cash and cash equivalents at end of period	10,981	9,936	+1,045

Financial country risk management includes various aspects: the risk from investments in subsidiaries and joint ventures, the risk from the cross-border financing of Group companies in risk countries and the risk from direct sales to customers in those countries. Daimler has an internal rating system that divides all countries in which it operates into risk categories. Equity capital transactions in risk countries are hedged against political risks with the use of investment protection insurance such as the German government's investment guarantees. Some cross-border receivables due from customers are protected with the use of export credit insurance, first-class bank guarantees and letters of credit. In addition, a committee sets and restricts the level of hard-currency credits granted to financial services companies in risk countries.

Further information on the management of market-price risk, credit-default and liquidity risk is provided in [Note 32](#) of the Notes to the Consolidated Financial Statements.

Cash flows

Cash provided by operating activities [↗ B.24](#) amounted to €3.7 billion in 2016 (2015: €0.2 billion). The increase was primarily due to effects from the leasing and sales-financing business. In addition, a positive impact resulted from the development of working capital. Compared to the previous year, cash-effective contributions to pension funds were lower, as the prior-year period was influenced by cash outflows of €1.2 billion for extraordinary contributions in Germany and the United States. An opposing effect resulted from the payment of the fine of €1.0 billion imposed by the European Commission in the context of the settlement in the truck antitrust proceedings against Daimler AG. Furthermore, there were higher tax payments in 2016, as the prior-year period was influenced by tax refunds.

Cash used for investing activities [↗ B.24](#) amounted to €14.7 billion (2015: €9.7 billion). The change compared with the prior-year period resulted primarily from higher cash outflows for investments in shareholdings. In the reporting period, the acquisition of 100% of the shares of Athlon Car Lease International B.V. (Athlon) and the settlement of financing liabilities of Athlon led to cash outflows. The prior-year period was affected by the capital increases carried out at our associated companies and joint ventures and the acquisition of shares in the digital mapping business HERE. Cash used for investing activities also reflects increased investments in intangible assets and property, plant and equipment. Furthermore, negative effects resulted from acquisitions and disposals of securities in the context of liquidity management. Those transactions led to a higher net cash outflow than in the previous year.

Cash provided by financing activities ↗ **B.24** amounted to €12.0 billion (2015: €9.6 billion). The increase was primarily due to the higher net cash inflows from financing liabilities in the context of refinancing the leasing and sales-financing business and the acquisition of the shares of Athlon. There was an opposing effect from the increased dividend payment to the shareholders of Daimler AG.

Cash and cash equivalents increased by €1.0 billion compared with December 31, 2015, after taking currency translation effects into account. Total liquidity, which also includes marketable debt securities, increased by €3.5 billion to €21.7 billion.

The parameter used by Daimler to measure the financial capability of the Group's industrial business is the **free cash flow of the industrial business** ↗ **B.25**, which is derived from the reported cash flows from operating and investing activities. The cash flows from the acquisition and sale of marketable debt securities included in cash flows from investing activities are deducted, as those securities are allocated to liquidity and changes in them are thus not a part of the free cash flow.

Other adjustments relate to additions to property, plant and equipment that are allocated to the Group as their beneficial owner due to the form of their underlying lease contracts. Furthermore, adjustments are made for the effects of financing dealerships within the Group. In addition, the calculation of the free cash flow includes those cash flows to be shown under cash from financing activities in connection with the acquisition or sale of interests in subsidiaries without loss of control.

The free cash flow of the industrial business amounted to €3.9 billion in 2016 and was significantly higher than the dividend payment, and therefore in line with the expectations as stated in the Outlook section of Annual Report 2015.

The slight decrease in the free cash flow by 0.1 to €3.9 billion was primarily due to following factors. Positive effects resulted from the development of working capital. In addition, higher cash outflows for the acquisition of shares in the digital mapping business HERE influenced the free cash flow of the prior-year period. Extraordinary payments in the context of pension and health-care benefits in Germany and the United States also had an impact in the prior year. However, payment of the fine in the context of the settlement in the antitrust proceedings and higher investments in intangible assets and property, plant and equipment reduced the free cash flow.

B.25

Free cash flow of the industrial business

	2016	2015	16/15
In millions of euros			Change
Cash provided by operating activities	12,643	11,735	+908
Cash used for investing activities	-10,903	-9,936	-967
Change in marketable debt securities	2,311	1,897	+414
Other adjustments	-177	264	-441
Free cash flow of the industrial business	3,874	3,960	-86

B.26**Net liquidity of the industrial business**

	Dec. 31, 2016	Dec. 31, 2015	16/15 Change
In millions of euros			
Cash and cash equivalents	8,751	8,369	+382
Marketable debt securities	9,498	6,999	+2,499
Liquidity	18,249	15,368	+2,881
Financing liabilities	1,451	2,612	-1,161
Market valuation and currency hedges for financing liabilities	37	600	-563
Financing liabilities (nominal)	1,488	3,212	-1,724
Net liquidity	19,737	18,580	+1,157

B.27**Net debt of the Daimler Group**

	Dec. 31, 2016	Dec. 31, 2015	16/15 Change
In millions of euros			
Cash and cash equivalents	10,981	9,936	+1,045
Marketable debt securities	10,748	8,273	+2,475
Liquidity	21,729	18,209	+3,520
Financing liabilities	-117,686	-101,142	-16,544
Market valuation and currency hedges for financing liabilities	61	583	-522
Financing liabilities (nominal)	-117,625	-100,559	-17,066
Net debt	-95,896	-82,350	-13,546

The net liquidity of the industrial business ↗ B.26

is calculated as the total amount as shown in the statement of financial position of cash, cash equivalents and the marketable debt securities included in liquidity management, less the currency-hedged nominal amounts of financing liabilities.

To the extent that the Group's internal refinancing of the financial services business is provided by the companies of the industrial business, this amount is deducted in the calculation of the net debt of the industrial business. At December 31, 2016, the Group's internal refinancing was of a higher volume than the financing liabilities originally taken on in the industrial business due to the application of the industrial business's own financial resources. This resulted in a positive value for the financing liabilities of the industrial business, thus increasing net liquidity, so the net liquidity of the industrial business exceeds the gross liquidity presented here.

Compared with December 31, 2015, the net liquidity of the industrial business increased from €18.6 billion to €19.7 billion. The increase mainly reflects the positive free cash flow of €3.9 billion. In addition, cash inflows in connection with the equity transactions with Daimler Financial Services had a positive impact of €0.7 billion. An opposing effect of €3.5 billion resulted from the dividend payment to the shareholders of Daimler AG.

Net debt at Group level, which primarily results from refinancing the leasing and sales-financing business, increased compared with December 31, 2015 from €82.4 billion to €95.9 billion. ↗ B.27

Financial guarantees, contingent liabilities and other financial obligations

Within the context of **financial guarantees**, Daimler generally guarantees the settlement of the payment obligations of the main debtor vis-à-vis the holder of the guarantee. The maximum potential obligation resulting from these guarantees amounts to €0.8 billion at December 31, 2016 (2015: €1.0 billion); the liabilities recognized in this context amount to €0.2 billion at the end of the year (2015: €0.1 billion). The financial guarantees that the Group has issued relating to bank loans of Toll Collect GmbH, the operator company for the electronic toll-collection system in Germany, remain unchanged at €0.1 billion. For information on risks arising from guarantees, we refer to our Risk and Opportunity Report in the section "Risks from guarantees, legal and tax risks."

The **contingent liabilities** principally constitute buyback obligations. At December 31, 2016, the best possible estimate for the loss risk from these guarantees amounted to €1.7 billion (2015: €1.6 billion). Warranty and goodwill commitments (product guarantees) provided by the Group in connection with its vehicle sales are not included in the contingent liabilities. In addition, other contingent liabilities are included. The best possible estimate for an obligation from the other contingent liabilities is €0.3 billion (2015: €0.4 billion).

In the context of its ordinary business operations, the Group has also entered into **other financial obligations** in addition to the liabilities shown in the consolidated balance sheet at December 31, 2016.

Detailed information on financial guarantees, contingent liabilities and other financial obligations are provided in [Note 30](#) of the Notes to the Consolidated Financial Statements.

Investment

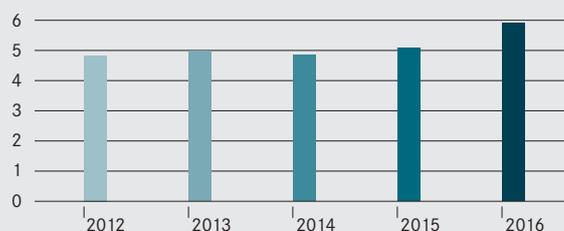
In the context of our growth strategy, we aim to make good use of the opportunities presented by the global automotive markets. At the same time, we intend to play a major role in the fundamental technological change occurring in the automotive industry, and to assume a leading role with digitization. This requires substantial investment in innovative products and new technologies, as well as in the expansion of our worldwide production network. In 2016, we therefore once again increased our investment in property, plant and equipment – as already announced in Annual Report 2015 – from an already high level to €5.9 billion (2015: €5.1 billion).

At December 31, 2016, financial obligations of €3.3 billion exist in connection with future investments in property, plant and equipment.

B.28

Investment in property, plant and equipment

In billions of euros



B.29

Investment in property, plant and equipment by division

	2016	2015	16/15
In millions of euros			% change
Daimler Group	5,889	5,075	+16
in % of revenue	3.8	3.4	
Mercedes-Benz Cars	4,147	3,629	+14
in % of revenue	4.6	4.3	
Daimler Trucks	1,243	1,110	+12
in % of revenue	3.7	3.0	
Mercedes-Benz Vans	373	202	+85
in % of revenue	2.9	1.8	
Daimler Buses	97	104	-7
in % of revenue	2.3	2.5	
Daimler Financial Services	37	30	+23
in % of revenue	0.2	0.2	

At Mercedes-Benz Cars, investment in property, plant and equipment of €4.1 billion in 2016 was significantly above the prior-year level (2015: €3.6 billion). The most important projects included the product ramp-up of the new E-Class models, preparations for the new GLE SUV and the successor models in the compact class, as well as new combustion engines and transmissions. We also made substantial investments in the reorganization of our German production facilities as competence centers and in the expansion of our international production network. The main areas of investment at Daimler Trucks in 2016 were successor generations for existing products, new products, global component projects and the optimization of the worldwide production network. Total investment in property, plant and equipment at Daimler Trucks increased to €1.2 billion (2015: €1.1 billion). At the Mercedes-Benz Vans division, the focus of investment was on the next-generation Sprinter, in particular for the expansion of production in the United States. The main investments at Daimler Buses were in new products and the modernization of production facilities.

Daimler Financial Services acquired Athlon Car Lease International B.V in 2016, thus making a strategic investment in the fleet-management business. Athlon is one of Europe's leading providers of mobility solutions, especially for commercial fleet leasing and management. The entire fleet-management business is to be operated under the Athlon brand in the future. This will create one of the leading providers in the field of European fleet management with a portfolio of approximately 360,000 cars and vans.

Furthermore, we capitalized development costs of €2.3 billion in 2016 (2015: €1.8 billion); this is presented under intangible assets.

Refinancing

The funds raised by Daimler in the year 2016 primarily served to refinance the leasing and sales-financing business. For that purpose, Daimler made use of a broad spectrum of various financing instruments in various currencies and markets. They include bank loans, commercial paper in the money market, bonds with medium and long maturities, customer deposits at Mercedes-Benz Bank and the securitization of receivables from customers in the financial services business (asset backed securities).

Various issuance programs are available for raising longer-term funds in the capital market. They include the Euro Medium Term Note program (EMTN) with a total volume of €50 billion, under which Daimler AG and several subsidiaries can issue **bonds** in various currencies. Other local capital-market programs exist, which are significantly smaller than the EMTN program. Capital-market programs allow flexible, repeated access to the capital markets.

The continued expansive monetary policy of the central banks also affected the situation in the bond markets in the reporting period. The high volumes of available liquidity meant that risk premiums for companies with investment-grade credit ratings remained moderate.

In the reporting period, the Group covered its refinancing requirements mainly through the issuance of bonds. A large proportion of those bonds were placed in the form of so-called benchmark emissions (bonds with high nominal volumes) in the US dollar and euro markets. [↗ B.31](#)

In April and November 2016, Daimler AG placed bonds in the domestic capital market of the People's Republic of China, so-called panda bonds, each with a volume of CNY4.0 billion. In addition, a large number of smaller bonds were issued in various currencies and markets.

Daimler also issued small volumes of **commercial paper** in 2016.

Furthermore, several **asset-backed securities (ABS) transactions** were carried out in the United States, Canada, Germany and China. In the United States for example, six emissions generated a refinancing volume totaling US\$6.6 billion. Bonds in a volume of C\$0.5 billion were issued in Canada. In addition, Mercedes-Benz Bank sold ABS bonds in a volume of €1.0 billion to European investors through its Silver Arrow Platform. For the first time, two ABS transactions were successfully placed in China with a total volume of CNY6.4 billion. In addition, an existing ABS transaction in the amount of €0.4 billion was taken over into the portfolio with the acquisition of Athlon on December 1, 2016.

Bank credit was another important source of refinancing in 2016. Funds were provided not only by large, globally active banks, but increasingly also by a number of local banks. The lenders also included supranational banks such as the European Investment Bank and the Brazilian Development Bank (BNDES).

In order to secure sufficient financial flexibility, in September 2013, Daimler concluded a €9 billion syndicated credit facility with a consortium of international banks with a maturity of five years and two extension options of two years in total. This provides the Group with financial flexibility until the year 2020. More than 40 European, American and Asian banks participated in the consortium. Daimler does not intend to utilize the credit line.

At the end of 2016, Daimler had not utilized short- and long-term credit lines totaling €18.1 billion (2015: €18.5 billion). They include the syndicated credit facility arranged in September 2013 with a consortium of international banks with a volume of €9 billion.

The carrying values of the main refinancing instruments and the weighted average interest rates are shown in table [B.30](#). At December 31, 2016, they are mainly denominated in the following currencies: 41% in euros, 30% in US dollars, 6% in Chinese renminbi, 4% in Canadian dollars, 3% in British pounds and 3% in Japanese yen.

At December 31, 2016, the total of financial liabilities shown in the consolidated statement of financial position amounted to €117,686 million (2015: €101,142 million).

Detailed information on the amounts and terms of financing liabilities is provided in [Notes 24 and 32](#) of the Notes to the Consolidated Financial Statements. [Note 32](#) also provides information on the maturities of the other financial liabilities.

B.30

Refinancing instruments

	Average interest rates		Carrying values	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
	in %		In millions of euros	
Notes/bonds and liabilities from ABS transactions	1.64	1.69	73,648	58,789
Commercial paper	2.71	1.35	1,701	2,961
Liabilities to financial institutions	2.96	2.58	29,674	27,311
Deposits in the direct banking business	0.65	0.71	11,642	10,532

B.31

Benchmark issuances

Issuer	Volume	Month of emission	Maturity
Daimler AG	€1,250 million	Jan. 2016	Jan. 2019
Daimler AG	€1,000 million	Jan. 2016	Jan. 2021
Daimler AG	€1,000 million	Jan. 2016	Jan. 2024
Daimler AG	€1,000 million	Mar. 2016	Mar. 2018
Daimler AG	€1,500 million	Mar. 2016	Sep. 2019
Daimler AG	€1,000 million	Mar. 2016	Mar. 2026
Daimler AG	€1,250 million	May 2016	May 2020
Daimler AG	€750 million	May 2016	May 2023
Daimler AG	€1,250 million	May 2016	May 2028
Daimler Finance North America LLC	US\$250 million	July 2016	July 2019
Daimler Finance North America LLC	US\$1,500 million	July 2016	July 2019
Daimler Finance North America LLC	US\$1,250 million	July 2016	July 2021
Daimler Finance North America LLC	US\$400 million	Oct. 2016	Oct. 2019
Daimler Finance North America LLC	US\$1,100 million	Oct. 2016	Oct. 2019
Daimler Finance North America LLC	US\$1,000 million	Oct. 2016	Oct. 2021
Daimler Finance North America LLC	US\$400 million	Jan. 2017	Jan. 2020
Daimler Finance North America LLC	US\$1,000 million	Jan. 2017	Jan. 2020
Daimler Finance North America LLC	US\$850 million	Jan. 2017	Jan. 2022
Daimler Finance North America LLC	US\$750 million	Jan. 2017	Jan. 2027

Credit ratings

In the year 2016, the long-term credit rating of Daimler AG as assessed by S&P Global Ratings was upgraded from A- to A. At the same time, the short-term rating was raised from A-2 to A-1. Our credit ratings with the other agencies remained unchanged in 2016. At the end of the year, Daimler AG had a positive ratings outlook at Moody's. The outlook with the other three rating agencies that Daimler has engaged was assessed as "stable." [↗ B.32](#)

B.32

Credit ratings

	End of 2016	End of 2015
Long-term credit rating		
Standard & Poor's	A	A-
Moody's	A2 ¹	A3
Fitch	A-	A-
DBRS	A (low)	A (low)
Short-term credit rating		
Standard & Poor's	A-1	A-2
Moody's	P-1 ¹	P-2
Fitch	F2	F2
DBRS	R-1 (low)	R-1 (low)

1 As of February 3, 2017

Moody's Investors Service (Moody's) confirmed the existing A3 long-term rating with a positive outlook on August 2, 2016. Moody's justified that rating with the well-established and highly valued Mercedes-Benz brand for premium cars and the strong global positioning of the truck business.

On February 3, 2017, Moody's raised its long-term credit rating for Daimler AG from A3 to A2. At the same time, the short-term rating was raised from P-2 to P-1. The outlook was assessed as stable. With this upgrade, Moody's is recognizing the Daimler Group's successful and stable business development of recent years, which is also reflected in the strength of our key financial metrics.

Fitch Ratings (Fitch) also affirmed its long-term issuer default rating of A- with a stable outlook for Daimler AG. Fitch referred to the Group's solid business profile and robust credit metrics. In addition, Fitch praised Daimler's wide geographical and business diversification as well as the improved profitability of the automotive divisions in recent years. At the same time, Fitch stated that the volatility of the trucks business remains a constraint for the Group's rating.

S&P Global Ratings (S&P) upgraded its long-term rating for Daimler AG from A- to A on November 2. At the same time, the short-term rating was raised from A-2 to A-1. The outlook remained unchanged at "stable." S&P explained the upgrade with the Group's stronger competitive position, especially at Mercedes-Benz Cars with its successful launches of new models. At the same time, S&P pointed out that the truck business had weakened due to contracting markets in some regions. The credit rating for Daimler AG is generally based on an unchanged "satisfactory" business risk and a "minimal" financial risk. One of the factors reflected by the business risk is the cyclical development of the automotive markets. The financial risk is an indicator of the Group's financial strength.

The Canadian agency **DBRS** most recently confirmed the long-term credit rating for Daimler AG at A (low) with a stable outlook in November 2016. DBRS pointed out that Daimler's business risk had generally improved on the basis of the ongoing momentum of Mercedes-Benz Cars in the premium segment. At the same time, DBRS noted that Daimler's credit metrics had softened somewhat through the first three quarters of 2016 due to the higher gross debt levels of the industrial operations.

The short-term credit ratings remained unchanged at Moody's, Fitch and DBRS in 2016.

Financial Position

The **balance sheet total** increased compared with December 31, 2015 from €217.2 billion to €243.0 billion; adjusted for the effects of currency translation, the increase amounted to €24.1 billion. Daimler Financial Services accounts for €141.8 billion of the balance sheet total (2015: €123.9 billion); this is equivalent to 58% of the Daimler Group's total assets (2015: 57%).

The increase in total assets is primarily due to the increased volume of the financial services business and higher liquidity (cash and cash equivalents and marketable debt securities). In addition, the higher volume of capital expenditure led to increased intangible assets and property, plant and equipment. The increased refinancing requirement resulting from the portfolio growth led to increased financing liabilities. This includes effects from the acquisition of Athlon Lease Car International B.V. (Athlon) as of December 1, 2016. In addition, there was an increase in shareholders' equity. Current assets account for 42% of the balance sheet total, which is at the prior-year level. Current liabilities account for 35% of the balance sheet total, as at the end of previous year.

Intangible assets of €12.1 billion (2015: €10.1 billion) include €8.8 billion of capitalized development costs (2015: €7.8 billion) and €1.2 billion of goodwill (2015: €0.7 billion). Mercedes-Benz Cars accounts for 76% (2015: 73%) and Daimler Trucks for 14% (2015: 18%) of development costs. Capitalized development costs amounted to €2.3 billion (2015: €1.8 billion), and account for 31% of the Group's total research and development expenditure (2015: 27%) [see page 124](#). The increase in goodwill results from the acquisition of Athlon.

Property, plant and equipment [see page 113](#) rose to €26.4 billion (2015: €24.3 billion). In 2016, €5.9 billion was invested worldwide (2015: €5.1 billion), in particular at our production and assembly sites for new products and technologies and for the expansion and modernization of production facilities. The sites in Germany accounted for €3.6 billion of the capital expenditure (2015: €3.3 billion).

B.33

Consolidated statement of financial position

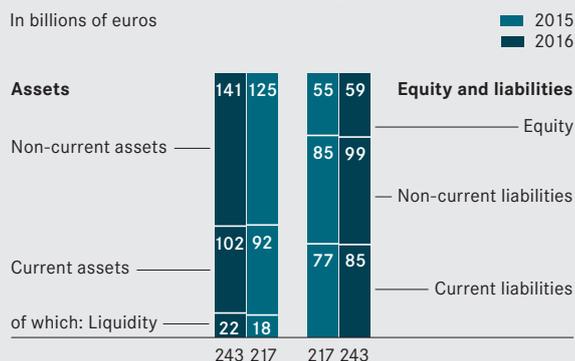
	Dec. 31, 2016	Dec. 31, 2015	16/15
In millions of euros			% change
Assets			
Intangible assets	12,098	10,069	+20
Property, plant and equipment	26,381	24,322	+8
Equipment on operating leases and receivables from financial services	127,449	112,456	+13
Equity-method investments	4,098	3,633	+13
Inventories	25,384	23,760	+7
Trade receivables	10,614	9,054	+17
Cash and cash equivalents	10,981	9,936	+11
Marketable debt securities	10,748	8,273	+30
Other financial assets	5,736	7,454	-23
Other assets	9,499	8,209	+16
Total assets	242,988	217,166	+12
Equity and liabilities			
Equity	59,133	54,624	+8
Provisions	26,810	26,145	+3
Financing liabilities	117,686	101,142	+16
Trade payables	11,567	10,548	+10
Other financial liabilities	12,869	12,360	+4
Other liabilities	14,923	12,347	+21
Total equity and liabilities	242,988	217,166	+12

Equipment on operating leases and receivables from financial services increased to a total of €127.4 billion (2015: €112.5 billion). The increase adjusted for exchange-rate effects of €14.2 billion was primarily caused by the higher level of new business at Daimler Financial Services, and by the acquisition of Athlon. The operational growth reflects the successful course of business, especially in Europe, the United States and Asia. The growth in the sales-financing business was especially achieved in China and other Asian countries. The leasing and sales-financing business as a proportion of total assets of 52% is at the prior-year level.

B.34

Balance sheet structure Daimler Group

In billions of euros



Equity-method investments of €4.1 billion (2015: €3.6 billion) primarily comprise the carrying amounts of our equity interests in Beijing Benz Automotive Co., Ltd. (BBAC), There Holding B.V. (digital mapping provider HERE), BAIC Motor Corporation Ltd. (BAIC) and Beijing Foton Daimler Automotive Co., Ltd. The increase was caused by positive effects from the share of profit at BBAC and the capital increase at that company. The impairment of the investment in BAIC had a negative effect.

Inventories increased from €23.8 billion to €25.4 billion, equivalent to 10% of total assets, which is below the level of the prior year (11%). The increase was primarily at the Mercedes-Benz Cars and Mercedes-Benz Vans divisions in finished and unfinished goods, partially due to the launch of new models and a wider range of model versions.

Trade receivables increased by €1.6 billion to €10.6 billion. The Mercedes-Benz Cars division accounts for 46% of these receivables and the Daimler Trucks division accounts for 26%.

Cash and cash equivalents increased compared with the end of 2015 by €1.0 billion to €11.0 billion.

Marketable debt securities increased compared with December 31, 2015 from €8.3 billion to €10.7 billion. Those assets include the debt instruments that are allocated to liquidity, most of which are traded in active markets. They usually have an external rating of A or better.

Other financial assets decreased from €7.5 billion to €5.7 billion. They primarily consist of derivative financial instruments, equity instruments in non-consolidated subsidiaries and other investments, as well as loans and other receivables due from third parties. The decrease mainly reflects the contribution of the shares in Renault S.A. (Renault) and Nissan Motor Company Ltd. (Nissan) to the pension-plan assets. There was an opposing effect from higher carrying values of derivative financial instruments.

Other assets of €9.5 billion (2015: €8.2 billion) primarily comprise deferred tax assets and tax refund claims. The increase in deferred tax assets primarily relates to effects from pensions and similar obligations not recognized in profit and loss.

The **Group's equity** increased compared with December 31, 2015 from €54.6 billion to €59.1 billion. The increase in equity was mainly due to net profit of €8.8 billion [see page 106](#) and the remeasurement of derivative financial instruments not recognized in profit and loss of €1.1 billion, as well as positive currency translation effects of €0.7 billion. Equity was reduced, however, by the payment of the dividend for financial year 2015 to the shareholders of Daimler AG of €3.5 billion and actuarial losses from defined benefit pension plans recognized in retained earnings of €1.2 billion. In addition, the remeasurement (€0.5 billion) and contribution of the shares in Renault and Nissan to the pension-plan assets (€0.6 billion) led to a decrease in the reserve of financial assets available for sale. Equity attributable to the shareholders of Daimler AG increased to €58.0 billion (2015: €53.6 billion).

Compared to the 12% increase in the balance sheet total, there was a disproportionately low increase in equity of 8%. Due to the effects described above, the Group's **equity ratio** of 22.9% was below the level at the end of 2015 (23.6%); the equity ratio for the industrial business was 44.7% (2015: 44.2%). It is necessary to consider that the equity ratios at the end of 2015 and 2016 are adjusted for the paid and proposed dividend payments.

Provisions increased to €26.8 billion (2015: €26.1 billion); as a proportion of the balance sheet total, they were below the prior-year level at 11% (2015: 12%). They primarily comprise provisions for pensions and similar obligations of €9.0 billion (2015: €8.7 billion), which mainly consist of the difference between the present value of defined benefit pension obligations of €31.2 billion (2015: €27.6 billion) and the fair value of the pension-plan assets applied to finance those obligations of €23.4 billion (2015: €20.2 billion). The fall in discount rates, especially for the German plans from 2.6% at December 31, 2015 to 1.9% at December 31, 2016, led to an increase in the present value of defined benefit pension obligations. The contribution of the shares in Renault and Nissan to the pension-plan assets led to an increase in the fair value of pension-plan assets of €1.8 billion. In addition, the positive development of the pension-plan assets led them to increase by €1.6 billion. Provisions also relate to liabilities from income taxes of €1.7 billion (2015: €1.7 billion), from product warranties of €6.1 billion (2015: €5.7 billion) and from personnel and social costs of €4.3 billion (2015: €4.4 billion), as well as other provisions of €5.7 billion (2015: €5.8 billion).

Financing liabilities of €117.7 billion were above the level of December 31, 2015 (€101.1 billion). The increase of €15.4 billion adjusted for exchange-rate effects primarily reflects the refinancing of the growing leasing and sales-financing business, as well as the higher requirement in connection with the purchase of Athlon. 54% of the financing liabilities are accounted for by bonds, 25% by liabilities to financial institutions, 10% by deposits in the direct banking business and 9% by liabilities from ABS transactions.

Trade payables increased to €11.6 billion due to the higher volume of business (2015: €10.5 billion). The Mercedes-Benz Cars division accounts for 64% of those payables and the Daimler Trucks division accounts for 21%.

Other **financial liabilities** of €12.9 billion (2015: €12.4 billion) mainly consist of liabilities from derivative financial instruments, residual value guarantees, accrued interest on financing liabilities, deposits received and liabilities from wages and salaries.

Other liabilities of €14.9 billion (2015: €12.3 billion) primarily comprise deferred income, tax liabilities and deferred taxes. The rise was mainly the result of increases in deferred taxes and deferred income, each of €1.3 billion, relating to the growth in revenue from multi-year service and maintenance contracts.

Further information on the assets presented in the statement of financial position and on the Group's equity and liabilities is provided in the Consolidated Statement of Financial Position [see page 220](#), the Consolidated Statement of Changes in Equity [see page 222](#) and the related notes in the Notes to the Consolidated Financial Statements.

Daimler AG

Condensed version according to the German Commercial Code (HGB)

In addition to reporting on the Daimler Group, the development of Daimler AG is also described in this section.

Daimler AG is the parent company of the Daimler Group and is domiciled in Stuttgart. Its principal business activities comprise the development, production and distribution of cars, vans and trucks in Germany and the management of the activities of the Daimler Group.

The vehicles are produced at the domestic plants of Daimler AG, as well as under contract-manufacturing agreements by domestic and foreign subsidiaries and by producers of special vehicles. Daimler AG distributes its products through its own sales-and-service network, which is organized in seven regional centers for cars and seven for commercial vehicles, through foreign sales subsidiaries and through third parties.

The annual financial statements of Daimler AG are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). This results in some differences with regard to recognition and measurement, primarily relating to intangible assets, provisions, financial instruments, the leasing business and deferred taxes.

The main performance indicators for Daimler AG are unit sales, revenue and net profit.

Profitability

The development of **profitability** was affected in financial year 2016 by the decrease in operating profit by €0.7 billion to €1.9 billion, as well as by the increase in financial income by €3.4 billion to €5.4 billion. [↗ B.36](#)

Revenue increased due to higher unit sales of vehicles and components by €4.2 billion to €107.2 billion and was thus higher than our expectations as stated in the Outlook section of last year's Annual Report. For the reasons stated above, revenue in the car business increased by 4% to €81.8 billion. Also in the commercial-vehicles business, higher unit sales of vehicles and components caused revenue to grow by 5% to €25.4 billion. Daimler AG significantly increased its unit sales in 2016, as forecast in the previous year.

The **earnings** achieved by the car business were lower than in the previous year, primarily due to increased expenditure for new products and technologies. On the other hand, ongoing growth of unit sales in Europe and China had a positive impact on earnings. Unit sales in the car business increased by 5% to 1,807,000 vehicles¹. The SUV segment was particularly successful in 2016, with a 24% increase in sales to 553,000 units¹. The C-Class segment recorded growth of 4% to 375,000 units¹. Due to the lifecycle of the S-Class, sales of 79,000 (2015: 110,000) units in this segment were lower than in the previous year.

Earnings from trucks and vans were higher than in 2015. Sales of trucks amounted to 101,000 (2015: 102,000) units¹ and sales of vans increased by 15% to 339,000 units¹.

Cost of sales increased by 5% to €96.3 billion. Increases in unit sales and expenses for new products and technologies led to higher cost of sales. Research and development expenses, which are included in cost of sales, were higher than in the previous year at €6.6 billion (2015: €5.6 billion); as a proportion of revenue, they amounted to 6.1% (2015: 5.4%). Research and development expenses were primarily related to the renewal and expansion of the product portfolio, especially with regard to the model series of the compact class, the SUVs and the successor model of the Sprinter. In addition, work is continuing on new generations of engines and alternative drive systems. At the end of the year, approximately 19,000 people were employed in the area of research and development.

¹ Unit sales relate solely to new vehicles. The unit sales of Daimler AG include vehicles invoiced to companies of the Group which have not yet been sold on to external customers by those companies. Vehicle sales by production companies of the Daimler Group to external customers and subsidiaries of Daimler AG are not counted in unit sales.

Selling expenses decreased by €0.2 billion to €6.5 billion. This was primarily due to lower personnel expenses in connection with restructuring the sales-and-service centers and the associated workforce reductions. As a proportion of revenue, selling expenses decreased from 6.5% to 6.0%.

General administrative expenses of €1.8 billion were slightly above the prior-year level (2015: €1.6 billion). In relation to revenue, they amounted to 1.7% (2015: 1.6%).

Other operating expense amounted to €0.7 billion (2015: €0.0 billion). The change was mainly the result of expenses of €0.4 billion relating to legal proceedings. [↗ B.36](#)

Financial income increased by €3.4 billion to €5.4 billion, primarily due to improved interest income/expense, net. This is mainly a reflection of a lower interest expense from retirement benefit obligations, following a change in the law on calculating the discount rate as the average market interest rate for the past ten years instead of the past seven years. Financial income was also affected by higher income from special-purpose assets for the settlement of pension obligations. There were opposing effects from increased impairments of investments in subsidiaries and associated companies. This relates in particular to Mercedes-Benz do Brasil Ltda. and Daimler India Commercial Vehicles Private Limited.

The **income tax expense** amounts to €1.4 billion (2015: €0.9 billion). In 2015, the figure included high tax benefits in connection with the tax assessment of previous years. The increase in the tax expense compared with 2015 is due in particular to the decrease in these tax benefits from previous years.

Net profit increased from €3.8 billion to €5.9 billion, and was thus in line with the expectations stated in the Outlook section of last year's Annual Report. The development primarily reflects the improved financial income, which was partially offset by lower operating profit.

The **economic situation** of Daimler primarily results from its business operations and those of its subsidiaries. Daimler AG participates in the operating results of its subsidiaries through profit distributions. The economic situation of Daimler AG is therefore fundamentally the same as that of the Daimler Group, which is described in the chapter "Overall Assessment of the Economic Situation." [🔗 page 140.](#)

Financial position, liquidity and capital resources

The **balance sheet total** of €98.2 billion is €9.9 billion higher than at year-end 2015. [↗ B.37](#)

Non-current assets increased by €0.8 billion to €40.1 billion, due to the higher amount of financial assets, fixed assets and intangible assets. Investment in property, plant and equipment (excluding leased assets, approximately €2.7 billion) mainly comprises investments for the production of the new E-Class models, the SUVs and the A-Class, as well as investments in engine and transmission projects.

Inventories increased compared with December 31, 2015 by €0.6 billion to €9.1 billion. The increase is mainly related to finished products and goods in connection with the higher production volumes.

Receivables, securities and other assets increased compared with December 31, 2015 by €7.8 billion to €46.1 billion. The main reason for this development was growth of €6.6 billion in receivables due from subsidiaries. **Cash and cash equivalents** decreased by €0.3 billion to €1.7 billion.

Gross liquidity – defined as cash and cash equivalents and other marketable securities – of €8.5 billion was higher than a year earlier (2015: €7.8 billion).

Cash provided by operating activities amounted to €8.5 billion in 2016 (2015: €6.6 billion). The increase primarily reflects improved working capital as well as lower cash-effective contributions to pension plan assets. The contribution of Daimspain S.L. into the special-purpose assets for the sustained strengthening of the German pension fund of Daimler AG was not cash effective. Daimspain S.L. holds 3.1% of the shares of each of Renault S.A. and Nissan Motor Company Ltd. On the other hand, cash provided by operating activities was reduced by higher utilization of provisions and by the lower operating profit in 2016.

B.36

Condensed income statement of Daimler AG

	2016	2015 ¹
In millions of euros		
Revenue	107,178	103,024
Cost of sales (including R&D expenses)	-96,271	-92,080
Selling expenses	-6,454	-6,695
General administrative expenses	-1,844	-1,622
Other operating expense, net	-749	-46
Operating profit	1,860	2,581
Financial income, net	5,430	2,074
Income taxes	-1,422	-900
Net profit	5,868	3,755
Transfer to retained earnings	-2,391	-278
Distributable profit	3,477	3,477

¹ Information on reclassifications in 2015 is presented in the annual financial statements of Daimler AG.

Cash flows from investing activities resulted in a net cash outflow of €6.1 billion in 2016 (2015: €4.2 billion). The increase is primarily a reflection of capital measures within financial assets. Additional factors leading to increased cash outflows were higher investments in securities, fixed assets and intangible assets.

Cash flows from financing activities resulted in a net cash outflow of €2.7 billion (2015: €3.9 billion). This is explained by the increase in external financing liabilities compared with the previous year. There was an opposing effect from the increased cash outflows from the Group's internal transactions in connection with central finance and liquidity management. Cash flows from financing activities include the payment of the dividend for the year 2015 in an amount of €3.5 billion.

B.37

Balance sheet structure of Daimler AG

	Dec. 31, 2016	Dec. 31, 2015
In millions of euros		
Assets		
Non-current assets	40,107	39,259
Inventories	9,071	8,503
Receivables, securities and other assets	46,120	38,341
Cash and cash equivalents	1,660	1,925
Current assets	56,851	48,769
Prepaid expenses	339	257
Assets arising from overfunding of pension obligations	891	-
	98,188	88,285
Equity and liabilities		
Share capital	3,070	3,070
(conditional capital €500 million)		
Capital reserve	11,480	11,480
Retained earnings	22,560	20,169
Distributable profit	3,477	3,477
Equity	40,587	38,196
Provisions for pensions and similar obligations	-	1,931
Other provisions	11,847	11,811
Provisions	11,847	13,742
Trade payables	6,077	5,098
Other liabilities	38,935	30,654
Liabilities	45,012	35,752
Deferred income	742	595
	98,188	88,285

Equity increased in 2016 by €2.4 billion to €40.6 billion. This change primarily resulted from the net profit for 2016, of which, in accordance with Section 58 Subsection 2 of the German Stock Corporation Act (AktG), €2.4 billion was transferred to retained earnings. The equity ratio at December 31, 2016 was 41.3% (December 31, 2015: 43.3%). As explained in the notes to the annual financial statements according to the German Commercial Code (HGB), Daimler AG holds no treasury shares at December 31, 2016.

Provisions decreased compared with December 31, 2015 by €1.9 billion to €11.8 billion. This was primarily due to the development of provisions for pensions and similar obligations. As the fair value of the special-purpose assets exceed the settlement amount of the pension obligations, Daimler AG reports an asset of €0.9 billion from the overfunding of its pension obligation at December 31, 2016. The contribution of Daimspain S.L. into the special-purpose assets of Daimler AG for the sustained strengthening of the German pension plan assets had a positive impact in this respect. There was also an effect from the increased discount rate for retirement benefit obligations resulting from the changed law on calculating such obligations.

Liabilities increased by €9.3 billion to €45.0 billion, primarily due to financing liabilities.

Risks and opportunities

The business development of Daimler AG is fundamentally subject to the same risks and opportunities as that of the Daimler Group. Daimler AG generally participates in the risks of its subsidiaries and associated companies in line with the percentage of each holding. The risks and opportunities are described in the "Risk and Opportunity Report." [pages 158 ff](#) For Daimler AG, the probability of occurrence of the risks and opportunities connected with pension plans is assessed as high. These risks and opportunities increase along with a change in the discount rate. Risks may additionally arise from relations with subsidiaries and associated companies in connection with statutory or contractual obligations (in particular with regard to financing), as well as from the impairment of investments in subsidiaries and associated companies.

Outlook

Due to the interrelations between Daimler AG and its subsidiaries and the relative size of Daimler AG within the Group, we refer to the statements in the "Outlook" chapter, which largely reflect our expectations also for the parent company. This includes the statements on unit sales and revenue. [pages 174 ff](#) For financial year 2017, we expect Daimler AG to achieve net profit significantly lower than in 2016, primarily due to a probable increase in interest expense. The year 2016 was influenced by the positive effect from the changed legislation on discount rates for retirement benefit obligations. Furthermore, we anticipate lower income from special-purpose assets in 2017.

Sustainability and Integrity

Sustainability at Daimler

Our view of sustainability

For us, sustainability means conducting business responsibly to ensure long-term success in harmony with the environment and society. We are moving toward our goals by making sustainability an integral part of our operations in the organization and by requiring and promoting a strong sense of responsibility for sustainable operations among all of our managers and employees throughout the Group. We include our business partners in this process and conduct a dialogue about these issues with our stakeholders. Our management structures, processes and systems are designed in accordance with this concept of sustainability. All of our behavior is based on legality and integrity. As one of the world's foremost automakers, Daimler has a clear claim to leadership in the field of sustainability.

Our sustainability strategy

We have developed a Group-wide sustainability strategy to enable us to meet the requirements associated with sustainability, and we systematically pursue the sustainability goals we have set for ourselves. This strategy is embedded in our corporate strategy, which is based on our four core values: passion, discipline, respect and integrity. We can only ensure sustained profitability and society's acceptance of our business activities if we take into account the impact all of our business processes have on the environment and society, and if we align our business targets with environmental and social requirements.

Our sustainability strategy has six core aspects ("dimensions of responsibility"), to which relevant areas have been assigned where action needs to be taken. We have linked them with targets and target indicators, against which we can be measured and which we use to document our progress. Our Target Program also defines the areas in which we plan to take action in the coming years. For example, we aim to further reduce pollutants and emissions, further enhance the safety of our vehicles, further advance our culture of integrity, and further expand and more systematically structure our efforts to protect human rights, in line with the "UN Guiding Principles on Human Rights." We also seek to improve our dialogue with our suppliers and dealers and to further strengthen our social commitment.

Our business activities are also strongly guided by the ten principles of the UN Global Compact, to which we are firmly committed as a founding member. We are also a member of the Global Compact LEAD Group. Our internal principles and guidelines are based on this international reference framework as well as on other international principles.

- We are committed to both legal and ethical standards and we must ensure that these standards are adhered to around the world – also by our business partners and suppliers.
- As an automobile manufacturer, we work to promote sustainable mobility solutions and have demonstrated our innovative capability with regard to environmental protection, resource conservation and safety.
- Our operations impact the environment, and this is especially the case in vehicle production. We therefore employ a consistent system of environmental management in order to minimize that impact.
- As an employer, we have a responsibility to ensure fair and attractive working conditions for our more than 282,000 employees worldwide.
- We seek to contribute to the common good beyond the level of our business operations, and we utilize our special expertise in order to achieve this goal.

Group-wide sustainability management

At Daimler, sustainability is thematically and organizationally embedded in our Group-wide corporate governance activities.  [pages 207 ff](#) The Corporate Sustainability Board (CSB) is the central management body for all sustainability-related issues. The operational work is conducted by the Corporate Sustainability Office, which is staffed by representatives of the specialist departments and divisions. Since 2011, we have been using the Sustainability Scorecard as a tool for steering our efforts to meet key sustainability targets. The scorecard uses a color-coded system either to display the success of quantitative indicators and qualitative objectives or to show that action needs to be taken. This allows targeted measures to be taken with the direct involvement of corporate management.

Comprehensive reporting on sustainability

The new sustainability report on financial year 2016 will be presented at Daimler's Annual Shareholders' Meeting at the end of March 2017. The report will be published exclusively in digital form, which means it will be available for viewing at any time on the Daimler corporate website. The report provides a detailed and comprehensive sustainability balance sheet for the previous financial year. All of the key facts and figures related to sustainability will also be published in a brochure.

 daimler.com/sustainability

Our sustainability report was drawn up in line with the Global Reporting Initiative (GRI) guidelines "G4 – Comprehensive." In this context, Daimler specifically highlights all of the company's key sustainability-related issues. This applies in particular to current focal topics such as our efforts to further reduce vehicle emissions, our electric mobility roadmap and the extensive participation of our employees and the company as a whole in a large number of social and environmental projects. We also focus on those issues that our materiality analysis has determined to be of great importance to our stakeholders and ourselves. These include our activities to protect human rights, our data protection policies, our measures to further reduce the CO₂ emissions of our vehicles and the development of innovative vehicle technologies such as those enabling autonomous driving.

Research and development

Research and development as key success factors

Research and development have always played a key role at Daimler. Gottlieb Daimler and Carl Benz invented the automobile more than 130 years ago. Today, we are shaping the future of mobility. Our researchers anticipate trends, customers' wishes and the requirements of the mobility of the future, and our development engineers systematically implement these ideas in products that are ready for series production. Our goal is to offer our customers fascinating products and customized solutions for needs-oriented, safe and sustainable mobility. Our technology portfolio and our key areas of expertise are focused on this objective.

The expertise, creativity and drive of our employees in research and development are key factors behind our vehicles' market success. At the end of 2016, Daimler employed 24,200 men and women at its research and development units (2015: 23,300). A total of 16,300 of those employees (2015: 15,500) worked at Group Research & Mercedes-Benz Cars Development, 5,600 (2015: 5,500) at Daimler Trucks, 1,200 (2015: 1,100) at Mercedes-Benz Vans and 1,200 (2015: 1,200) at Daimler Buses. Approximately 5,400 researchers and development engineers (2015: 5,100) worked outside Germany.

Our international research and development network

Our global research and development network comprises 35 locations in 15 countries. The biggest facilities are in Sindelfingen and Stuttgart-Untertürkheim in Germany. In November 2016, we opened our new technology center for vehicle safety (TFS) in Sindelfingen. The center offers entirely new possibilities for car and truck crash tests, the configuration of assistance systems and PRE-SAFE®, and the validation of vehicle concepts that use alternative drive systems. An ultramodern testing and technology center is under construction in Immendingen and is scheduled to be completed in 2018. This facility will be used to refine and optimize combustion engines and alternative drive systems for hybrid vehicles and electric vehicles powered by batteries or fuel cells. Most of the test drives that now take place on public roads will be shifted to the new proving grounds in Immendingen after it is completed. Our most important research locations in North America are Sunnyvale, California (home of the headquarters of our research facilities); Long Beach, California; Portland, Oregon; and Redford, Michigan. Our most important locations in Asia are our facility in Bangalore, India; the Global Hybrid Center in Kawasaki, Japan; and our research and development center in Beijing. Mercedes-Benz Research and Development India (MBRDI) with headquarters in Bangalore is Daimler's largest research and development center outside Germany. Activities at MBRDI, which celebrated its 20th anniversary in 2016, focus on digitization, simulations and data science. Ten years after it opened, Mercedes-Benz Research & Development China is now an integral part of the Daimler Group's research network and also plays a key role in understanding Chinese customers' expectations and local requirements. This expertise directly gives us a sustained competitive edge and the capability to develop tailored products for the local market. Back in 2013, our van joint venture in China, Fujian Benz Automotive Corporation, opened a new product development center in Fuzhou. This facility, which is the first Mercedes-Benz Vans product development center outside Germany, has a design and calculation department, proving grounds, test labs and component and complete-vehicle test rigs. In 2016 we also opened a new Technology Center in Tel Aviv that focuses on research projects related to digitization.

Along with our internal activities, we also maintain close contacts with external research institutions. For example, we cooperate with various renowned research institutes around the world and participate in international exchange programs for up-and-coming scientists.

Targeted involvement of the supplier industry

In order to achieve our ambitious goals, we cooperate very closely also with research and development units from the supplier industry. Daimler must be closely intermeshed with supplier companies in order to deal with the rapid pace of technological change in the automotive industry and the need to quickly bring new technologies to market maturity. Such cooperation is all the more important in light of the increasing digitization of processes throughout all stages of the value chain. Strong partners from the supplier industry are also indispensable for our efforts to develop and offer new concepts for future mobility. As part of our joint research and development work, we make sure the Group retains key technological expertise it needs to maintain the uniqueness of our brands and to safeguard the future of the automobile in general.

Intellectual property rights secure our leadership in technology and innovation

We invented the automobile: On January 29, 1886, Carl Benz registered a patent for a “vehicle powered by a gas engine.” In the 131 years since then, we have refined automobiles with more than 110,000 patents and have set standards that point the way towards emission-free, accident-free and autonomous driving. We continued this tradition in 2016 by registering a total of approximately 2,000 new ideas for patents, as we did also in the previous year. These patents are important to the company primarily for two reasons. First of all, they enable “exclusivity,” whereby the goal is to establish exclusive positioning of selected Daimler features on the market, thus setting ourselves apart from the competition. Secondly, the patents secure Daimler a certain amount of “freedom of action” that enables us to manufacture and sell our products around the world and avoid legal conflicts with third parties. In addition to industrial property rights, which safeguard our innovations for future mobility over the long term, the unique visual aspects of our products are protected with approximately 9,100 designs registered in 2016 (2015: 9,000). Furthermore, with a portfolio of more than 32,800 trademarks worldwide (2015: 31,300), we protect the renowned and valuable Mercedes-Benz brand, the three-pointed star and all of our other product brands in each relevant market.

€7.6 billion for research and development

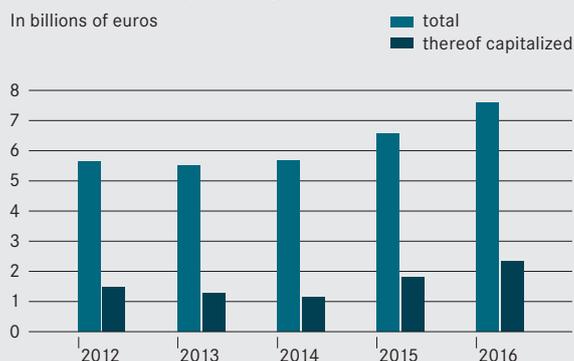
We want to continue shaping mobility through our pioneering innovations in the coming years while moving ahead with digitization throughout the Group. Daimler seeks to play a pioneering role in the future-oriented strategic fields of connectivity (Connected), autonomous driving (Autonomous), flexible use (Shared & Services) and electric drive systems (Electric), as well as for systems that intelligently link these fields. As announced in Annual Report 2015, we therefore increased our very high level of investment in research and development by 15% to €7.6 billion in 2016. Of that amount, €2.3 billion (2015: €1.8 billion) was capitalized as development costs, which amounts to a capitalization rate of 31% (2015: 27%). The amortization of capitalized research and development expenditure totaled €1.3 billion during the year under review (2015: €1.2 billion). With a rate of 4.9% (2015: 4.4%), research and development expenditure was also at a high level in comparison with revenue. Research in the year under review focused on new vehicle models, extremely fuel-efficient and environmentally friendly drive systems, new safety technologies, autonomous driving systems and the digital connectivity of our products.

Key areas at Mercedes-Benz Cars were the new models in the compact class, the ongoing model updates of SUVs and coupes, the new EQ electric brand and the new generation of diesel and gasoline engines. We also invested in vehicle connectivity, autonomous driving systems and the development of additional innovative safety technologies. Mercedes-Benz Cars spent a total of €5.7 billion on research and development in 2016, which once again marked a significant increase from the prior year’s figure (€4.7 billion). Daimler Trucks invested €1.3 billion in research and development projects (2015: €1.3 billion). The division’s most important projects were in the areas of emission standards and fuel efficiency, as well as new products and the successor generations of existing products such as the new Freightliner Cascadia. R&D expenditure at Mercedes-Benz Vans focused mainly on ongoing product updates, the new Sprinter generation and the expansion of the portfolio with the new X-Class pickup. Daimler Buses primarily focused its development activities on new products, the fulfillment of new emissions standards and the creation of alternative drive systems. ↗ B.38 ↗ B.39

B.38

Research and development expenditure

In billions of euros



B.39

Research and development expenditure by division

	2016	2015	16/15
In millions of euros			% change
Daimler Group	7,572	6,564	+15
thereof capitalized	2,315	1,804	+28
Mercedes-Benz Cars	5,671	4,711	+20
thereof capitalized	2,008	1,612	+25
Daimler Trucks	1,264	1,293	-2
thereof capitalized	57	26	+119
Mercedes-Benz Vans	442	384	+15
thereof capitalized	238	153	+56
Daimler Buses	202	184	+10
thereof capitalized	11	13	-15

Innovation and safety

Innovations for the mobility of the future

The greatest possible customer utility, the most stringent safety standards, high levels of environmental compatibility and efficiency – we rely on innovative concepts and environmentally sound product development to help us achieve all of these goals simultaneously. Our innovations range from pioneering vehicle and drive-system technologies to intelligent light-weight engineering concepts and sophisticated assistance systems that can prevent accidents.

CASE – these four letters stand for the future-oriented strategic fields of connectivity (Connected), autonomous driving (Autonomous), flexible use and services (Shared & Services), and electric drive systems (Electric). We are moving ahead consistently in all of these areas at all of our divisions, and we are also linking them in an intelligent way to create a comprehensive target concept for our vehicles, services and business models. In this manner, we are underlining our claim to play a dominant role in the mobility of the future. The projects presented on the following pages are specific examples of a large number of activities that show how Daimler is already playing a leading role today in the development of solutions for the mobility of tomorrow.

Our “road to emission-free driving”

Our “Road to Emission-free Driving” initiative defines the key development approaches for creating new, extremely fuel-efficient and environmentally friendly drive-system technologies at all of our automotive divisions:

1. We continue to enhance our vehicles with state-of-the-art internal-combustion engines to achieve further significantly reductions in fuel consumption and emissions.
2. We are achieving further significant increases in efficiency through customized hybridization, i.e. the combination of combustion engines and electric motors.
3. Our electric vehicles, powered by batteries or fuel cells, are making locally emission-free driving possible. ➔ [B.40](#)

We are systematically pursuing our approach to emission-free driving along the entire value chain. To this end, we are addressing multiple aspects and exploiting potential at all development units for everything from lightweight engineering to optimized aerodynamics, the use of clean and efficient fuels, the creation of electric drive systems and the implementation of sustainable mobility concepts. We view emissions as a holistic issue and are therefore examining ways to reduce other types of emissions besides pollutants – e.g. noise.

In 2016 in particular, we made considerable progress in terms of the road to emission-free driving. This is especially true with regard to our diesel and gasoline engines. We believe that over the medium term, 15% to 25% of all our new cars will be all-electric models. However, this also means that combustion engines will continue to form the backbone of individual mobility well into the next decade. This is one of the main reasons why we continue to invest heavily in the optimization of combustion engine technology, and in this way we are making a key contribution toward reducing fuel consumption and emissions even further. At the same time, we launched a broad-based electric mobility offensive at all of our divisions during the year under review. With it, we are employing a holistic approach that includes both the electric vehicles themselves and all the services needed for electric mobility.

Outstanding efficiency and emissions: the new diesel engines

The exemplary efficiency and emissions of our new premium diesel engine already meet all of the known emission standards, while underlining the key role to be played by diesel drive systems in achieving challenging climate targets. The outstanding fuel efficiency and emissions of the new diesel engines were achieved with an integrated technological approach that includes a new graduated bowl combustion system and a newly developed exhaust aftertreatment concept. The new engine design makes it possible to install all exhaust aftertreatment components in the direct vicinity of the engine rather than in the underbody area, as was previously the case. This has led

B.40

Road to emission-free mobility

Optimizing our vehicles with modern conventional powertrains

Hybridization for further increase in efficiency

Locally emission-free driving with electric vehicles powered by batteries or fuel cells

Energy for the future



Clean fuels for internal combustion engines



Energy sources for locally emission-free driving

to a significant improvement in overall system performance – and this performance is almost completely independent of ambient temperatures and driving styles. In its 143 kW version, the first all-aluminum four-cylinder diesel engine from Mercedes-Benz weighs 168.4 kg. That is 35.4 kg (17 percent) less than the 125 kW predecessor – and a new benchmark in the engine’s output class. If instead of the DIN weight, one compares the ready-to-run engine with all its auxiliary assemblies, the weight reduction amounts to 46 kg, which translates into clear benefits in terms of agility and fuel consumption.

The all-new OM 654 four-cylinder diesel engine had its market launch in the new E-Class. The Mercedes-Benz E 220 d (fuel consumption in l/100 km: urban 4.7–4.3, extra-urban 4.1–3.6, combined 4.3–3.9; CO₂ emissions in g/km: combined 112–102) thus consumes much less fuel than the predecessor model, despite its higher performance. However, the new diesel engine family stands out not just by virtue of its excellent fuel economy; it also boasts very low nitrogen-oxide emissions. This was also confirmed by measurements conducted by the independent DEKRA testing organization.

Biggest engine offensive in the history of Mercedes-Benz

The new four-cylinder diesel engine is the first member of a modular engine family that will be utilized across the entire product range of Mercedes-Benz Cars and also at Mercedes-Benz Vans. Several different output ratings are planned for the engine, which will be installed either longitudinally or transversely in vehicles with front, rear or all-wheel drive. In this manner, Mercedes-Benz will equip its entire range of diesel cars in Europe with this new engine generation by 2019 at the latest. Next year will see the debut of another four members of the all-new engine family: an in-line six-cylinder engine in a diesel and a gasoline variant, a new four-cylinder gasoline engine and a new biturbo V8. Forward-looking new technologies such as the integrated starter-generator (ISG), the 48-volt on-board power system and the electric auxiliary compressor will also have their world premieres next year.

Comprehensive electric-mobility offensive for cars and commercial vehicles

Daimler launched a broad-based electric mobility offensive at all of its divisions during the year under review. The models include new plug-in hybrids from Mercedes-Benz Cars, new electric smart models, the DENZA 400, which we developed with our partner BYD for the Chinese market, the new FUSO eCanter and a completely new fuel-cell vehicle based on the GLC with plug-in technology. The electric mobility offensive also includes the three concept vehicles Concept EQ, the heavy-duty Mercedes-Benz Urban eTruck and the Mercedes-Benz Vision Van, all of which offer a very detailed preview of electric mobility in the future. [👁 pages 20 ff and 42 ff](#)

For the electrification of the drivetrain, we are employing a holistic approach that includes both the electric vehicles themselves and all the services needed for electric mobility. The latter range from intelligent services to energy-storage units for private and commercial customers, charging technologies (e.g. inductive charging) and sustainable recycling solutions. In order to meet the rising demand for top-quality high-voltage batteries, Daimler is also investing a total of approximately €1 billion in the establishment of a global battery production network.

Ten plug-in hybrid cars by 2017

The major benefit of plug-in hybrid vehicles is that they combine the best aspects of combustion engines and electric drive. Hybrids help reduce overall consumption and increase performance, as the electric motor is used to take over from or support the combustion engine in situations where the latter is less efficient. In addition, our plug-in hybrids are equipped with a powerful battery that enables an all-electric range of approximately 30 km. The updated S-Class with hybrid drive, which will be launched in the spring of 2017, actually has an all-electric range of around 50 km, and we plan to increase that range to as much as 100 km over the medium term. This will enable our customers to drive locally emission-free to a very large extent in everyday situations. In such a setup, the combustion engine is used for longer distances; this guarantees that our plug-in hybrids will be perfect for any driving requirement. We believe that plug-in hybrid technology will be extremely successful as we move into the next decade, and that is why hybridization is a key component of our drive-system strategy. We will present a total of ten plug-in hybrid models by the end of 2017.

We launched three new plug-in hybrid models in 2016. One of them is the Mercedes-Benz E 350 e (fuel consumption in l/100 km: combined 2.1; CO₂ emissions in g/km: combined 49; electricity consumption in kWh/100 km: combined 11.5). With a system output of 210 kW (286 hp), this plug-in hybrid offers the performance of a sports car and the certified fuel consumption of a subcompact.

EQ – a new brand for electric mobility

Mercedes-Benz has consolidated all of its activities in the area of electric mobility into a new product brand known as EQ. EQ stands for Electric Intelligence, which in turn is derived from the Mercedes-Benz brand values of Emotion and Intelligence. The new brand addresses all aspects of customer-focused electric mobility and therefore involves much more than just the vehicles themselves: EQ offers a comprehensive electric-mobility ecosystem of products, services, technologies and innovations. The new brand is heralded by the near-production Concept EQ, which had its world premiere at the Paris Motor Show in 2016.

[👁 page 22 f](#)

The first series-produced EQ model will be launched in the SUV segment before the end of the decade. It will be followed by a model offensive that will gradually expand the product range of Mercedes-Benz Cars to include even more electric models. By 2025, Daimler will be offering more than ten all-electric models in the passenger-car segment alone.

With the Concept EQ, Mercedes Benz has demonstrated that attractive electric vehicles delivering high performance might soon be a very common sight on streets and highways. The Concept EQ looks like a sporty SUV coupe and points the way forward to an all-new generation of battery-electric vehicles. These new electric vehicles will be based on an architecture developed especially for battery-electric models. This architecture is scalable in every respect and can be used in all model series, including all types of car such as SUVs, sedans and coupes.

The Mercedes-Benz Vision Van: intelligent, connected and electric

The Mercedes-Benz Vans division presented its all-electric Vision Van in September 2016. This forward-looking concept van features numerous innovative solutions for parcel deliveries in urban and suburban settings. The Vision Van is the world's first van that digitally links all participants and processes in the delivery chain from start to finish – from the goods distribution center to the recipient. It is also the first van with a fully automatic cargo area and integrated delivery drones. This means, for example, that in the future, the van will be able to stop in a residential area and use the drones for automatic air deliveries even as the driver makes deliveries by hand in the immediate vicinity. This will simplify operations for delivery companies, reduce transport times and create entirely new possibilities for end customers. All in all, use of the Vision Van can increase the efficiency of last-mile delivery operations by as much as 50%. [👁 page 48 f](#)

We believe that the future of urban delivery operations will largely be an electric one, because the overall framework for electric mobility and the associated technological possibilities are continually improving. For this reason, Mercedes-Benz Vans has decided to once again launch series production of an electric commercial van in 2018 after having introduced the world's first all-electric production van – the Vito E-CELL – back in 2011. The fully electric drive system will be developed by the division in line with specific applications and the exact requirements of customers that provide delivery services in urban areas. Various battery charging systems and battery sizes will thus be offered in order to accommodate different customer requirements. In some applications, the van's electric drive system will result in operating costs similar to those of a van with a combustion engine.

All-electric trucks: FUSO eCanter and Urban eTruck

Since 2014, Daimler Trucks has been impressively demonstrating the everyday suitability of an all-electric truck for the light distribution sector in customer trials with the FUSO Canter E-Cell. In 2016, FUSO presented the eCanter – the third generation of the world's first all-electric light-duty truck – at the IAA Commercial Vehicles Show. This presentation marked the start of a small series production run of vehicles that will be delivered to customers in Europe, the United States and Japan from 2017 on. The FUSO eCanter represents the systematic further development of the FUSO Canter E-Cell, and it differs from the predecessor model not just in visual terms but also technologically.

With its locally zero-emission drive system, the eCanter not only reduces the impact of exhaust and noise on city centers; it also offers an economically attractive alternative to diesel engines. Because of its lower costs for the battery and other components, the eCanter can be offered at a competitive price. In addition, the truck's low operating costs compared to an equivalent diesel model mean that customers can recoup their expense in around three years.

In July 2016, Daimler Trucks presented the Mercedes-Benz Urban eTruck, the first fully electric truck with a gross vehicle weight of up to 26 metric tons. The Urban eTruck thus points the way to a future in which heavy-duty trucks can also be used for emission-free and low-noise urban distribution operations. As things stand now, we could launch this technology at the beginning of the next decade. [👁 pages 42 f](#)

Expansion of business with stationary energy storage devices

As early as 2015, Daimler entered the market for stationary energy-storage devices, and it has since then continually expanded its activities in this growth sector. The systems developed by Daimler are scalable, which means that the lithium-ion batteries can be utilized both in large-scale industrial applications and private households. Three major projects that focus on industrial energy-storage solutions are already being developed. They include a 13 MWh second-use battery storage unit in Lünen, Germany, [👁 page 134](#) and a cooperation project with enercity (Stadtwerke Hannover AG). In the latter project, some 3,000 battery modules reserved for the third-generation smart electric drive vehicle fleet are being pooled to create a stationary storage facility at the enercity site in Herrenhausen. With a storage capacity totaling 15 MWh, the facility is one of the largest in Europe. A battery normally requires regular cycling (i.e. specific charging and discharging for the purpose of preservation) during its storage period if it is to be used as a replacement. The traditional and potentially long-term replacement battery storage solutions thus generate not only warehousing costs but substantial operating costs as well. However, the partner companies have succeeded in avoiding those costs through the use of an innovative approach that offers decisive benefits. Around 29 MW will be connected to the grid after completion of the first projects. Daimler will team up with specialized partners to market this power on Germany's primary energy market. The storage units will be used to balance energy fluctuations in the German grid. Further projects are being planned.

In April 2016, Daimler began delivering Mercedes-Benz stationary energy-storage units for use in private homes. The lithium-ion batteries are manufactured by Daimler's Deutsche Accumotive subsidiary and distributed via selected sales and cooperation partners. At present, the company is cooperating here with various energy suppliers, solar-power specialists and wholesalers. Their network of qualified specialist installers provide end-customers with on-site advice, take care of planning, draw up individual quotations for all components and perform the actual installation.

World premiere of the partially autonomous Mercedes-Benz Future Bus

During the year under review, Daimler Buses became the world's first manufacturer to present a city bus that can operate in a partially autonomous mode in normal traffic. In July 2016, the Mercedes-Benz Future Bus equipped with CityPilot drove partially autonomously for the first time on a Bus Rapid Transit (BRT) line approximately of 20 kilometers in Amsterdam. The bus drove at speeds up to 70 km/h, stopped with centimeter precision at bus stops and traffic lights, accelerated automatically, drove through tunnels, braked for obstacles and pedestrians, and communicated with traffic signals. Drivers remain on board the Future Bus, but their job is made much easier.

For example, Future Bus can recognize if a stretch of road is suitable for autonomous driving and then notifies the driver, who can activate the CityPilot with just the push of a button. After that, drivers must keep their feet off the gas and brake pedals and their hands off the steering wheel. This is because any such driving action will override and deactivate the CityPilot. In other words, the driver always maintains full control over the bus.

Our "road to accident-free driving"

Vehicle safety is one of our core areas of expertise and a key component of our product strategy. The Mercedes-Benz brand has been shaping the development of safety systems for several decades. Many of the company's innovations, especially those for protecting vehicle occupants and other road users, have saved countless lives. Even today, Daimler continues to set standards for safety technology and autonomous driving. Our vision of accident-free driving will continue to motivate us to make mobility as safe as possible for everyone in the future.

Partially autonomous driving in the new E-Class

With the new E-Class, Mercedes-Benz has taken a further step toward accident-free and autonomous driving. The model is the world's first production car to be issued with a test license for autonomous driving in Nevada in the United States without having to change any of the standard hardware – only the software has been modified.

An extensive range of assistance systems, including Active Brake Assist, ATTENTION ASSIST and Crosswind Assist, are standard in the new E-Class, which is also available with an expanded driver assistance package as an option. Basic features include partially automated driving on highways, country roads and even in cities, as well as assistance when changing lanes on multi-lane roads, for example when overtaking. In more and more situations, it can also autonomously brake the vehicle if required and provide active assistance during evasive maneuvers. The active distance assistant DISTRONIC can automatically maintain the correct distance to vehicles in front by adjusting the driver's higher desired speed down to that of a slower-moving vehicle ahead. It can then accelerate back to the set speed once the road ahead is clear. With the Steering Pilot sub-function, the system can also keep the E-Class in its lane at speeds up to 210 km/h. This makes things easier for the driver, who no longer needs to brake or accelerate in normal driving situations and also receives plenty of steering assistance – even in curves.

Impressive innovations in the new E-Class include an Active Lane-change Assistant, which supports the driver when changing lanes – e.g. when overtaking on multi-lane roads. Once the driver has activated the turn signal for at least two seconds, and thus indicated a lane change, the Active Lane-change Assistant helps steer the vehicle into the desired adjacent lane, provided it detects that the lane is not occupied. Here, the driver merely monitors the lane change – and it makes no difference whether the driver wants to move to the right lane or to the left lane in order to pass another vehicle.

Car-to-X communication in series-production cars

During the year under review, Mercedes-Benz became the first manufacturer to introduce Car-to-X connectivity technology in series-production models, thus once again underscoring its leading role as a pioneer in safety. An accident around the next bend? A sudden traffic jam due to a temporary construction site? Such situations are made less dangerous if drivers are specifically warned about them in advance. Car-to-X communication significantly extends the range of existing vehicle sensors, such as radar and camera systems. It allows information about dangerous situations that are automatically detected by a vehicle or reported by a driver to be sent to other vehicles, and in this manner it allows drivers to "see around corners" or "through obstacles," so to speak. In other words, information about potential hazards in road traffic can be sent to drivers at an early stage. This allows drivers to prepare for them and avoid critical situations altogether. Mercedes-Benz uses the vehicle's integrated communication device for Car-to-X communication. Data is sent to the Daimler Vehicle Backend system, where it is aggregated, checked for plausibility and forwarded to other similarly equipped vehicles in the relevant vicinity. The system is designed to use third-party information as well. Car-to-X communication operates in the background and does not distract the driver's attention. It simply provides the driver with early and targeted information in safety-critical situations and is therefore seamlessly integrated into the "Mercedes-Benz Intelligent Drive" strategy.

Connectivity for greater safety and lower fuel consumption

In May 2015, Daimler Trucks was the first manufacturer worldwide to receive a license to operate autonomously driving trucks on public roads. Our intelligent trucks have the potential to make the transport of goods more efficient, more sustainable and safer in the years ahead. The key here is to connect trucks with other vehicles and logistics participants. With its participation in the European Truck Platooning Challenge 2016 about two weeks after the world premiere of its Highway Pilot Connect system on the A52 autobahn near Düsseldorf in April 2016, Daimler Trucks once again demonstrated its technology leadership in the field of vehicle connectivity. In the European Truck Platooning Challenge, three connected and autonomous Mercedes-Benz Actros trucks participated in a cross-border convoy drive from Stuttgart to Rotterdam in the Netherlands. Vehicle-to-vehicle (V2V) connectivity makes it possible to electronically link trucks on highways and major secondary roads in platoons. Each networked truck can maintain a distance of just 15 meters from the next, rather than the 50 meters normally required. This significantly reduces aerodynamic drag, and a platoon of three trucks can reduce fuel consumption and CO₂ emissions by up to 7% each. The shorter distance between vehicles in platoons also allows for much more efficient use of road space. For example, a platoon of three linked trucks has a length of only 80 meters, whereas three trucks that are not electronically coupled require 150 meters of road space. At the same time, platooning makes road traffic significantly safer. Whereas a human behind the wheel has a reaction time of 1.4 seconds before an emergency braking maneuver, Highway Pilot Connect transmits a braking signal to the vehicles behind in less than a tenth of a second. This considerably shortened reaction time can make a major contribution toward significantly reducing the number of rear-end collisions that occur at the tail end of traffic jams on highways, for example. However, even with all the technological possibilities offered by V2V, the driver always maintains ultimate responsibility for monitoring all of the assistance systems.

First time ever in a truck: Sideguard Assist and Active Brake Assist with pedestrian detection

Until now, assistance systems in trucks have primarily been used to avoid serious accidents on highways, although the number of trucks on the roads is continually increasing. With Sideguard Assist and Active Brake Assist 4 (ABA 4), Mercedes-Benz Trucks is transferring this state-of-the-art safety technology to urban traffic settings and helping to protect the most vulnerable road users – pedestrians and cyclists. Sideguard Assist is the first assistance system available in the industry that draws the truck driver's attention to pedestrians and cyclists in turning situations; this means it can significantly increase safety in urban traffic situations. The German Insurance Association (GDV) believes that Sideguard Assist can prevent around half of all accidents between trucks and pedestrians/cyclists in the future. ABA 4 is the first emergency braking system for trucks that can significantly reduce the risk of accidents with pedestrians in cities. Whereas Active Brake Assist 3 is already able to initiate braking fully automatically in response to stationary and moving obstacles such as slow-moving vehicles and cars at the end of a traffic jam, the new ABA 4 now also detects pedestrians who walk onto streets from between parked cars. In this case, the system will autonomously initiate partial braking.

Environmental protection

A comprehensive approach to environmental protection

Protecting the environment is a primary corporate objective of the Daimler Group. Environmental protection is not separate from other objectives at Daimler; instead, it is an integral component of a corporate strategy aimed at long-term value creation. The environmental and energy-related guidelines approved by the Board of Management define the environmental and energy-related policy of the Daimler Group. This expresses our commitment to integrated environmental protection, which begins with the underlying factors that have an impact on the environment, assesses the environmental effects of production processes and products in advance, and takes these findings into account in corporate decision-making.

€3.2 billion for environmental protection

In 2016, we continued to energetically pursue the goal of conserving resources and reducing all relevant emissions. We kept a close eye on the impact of all our processes, ranging from vehicle development and production to recycling and environmentally friendly disposal. Our expenditure for environmental protection reached €3.2 billion in the year under review (2015: €2.8 billion).

Car CO₂ emissions of 123 g/km at the prior year's level

Daimler makes great efforts to reduce the fuel consumption of its vehicles while enhancing their performance – and thus increasing driving enjoyment and safety reserves. As early as 2015, we were able to reduce the CO₂ emissions of newly registered vehicles from Mercedes-Benz Cars in the European Union to an average of 123 grams per kilometer. This means we achieved our 2016 target of 125 g/km ahead of schedule. We were able to maintain the figure of 123 g/km in 2016 as well, despite a shift in our sales structure towards the upper-mid and large segments. **7B.41** By means of technical innovations, we succeeded in further reducing the CO₂ emissions of our individual models. This was made possible by both the continual optimization of our combustion engines and the great efficiency offered by our hybrid drive systems. Our efforts are supported here by new and very economical models with lightweight designs and significantly improved aerodynamics that have enabled us to exploit further fuel-saving potential. As a result, we have reduced the CO₂ emissions of our cars by more than 12% since 2012 – and by approximately 40% within 16 years or just two vehicle generations. More than 65 Mercedes-Benz and smart models emit less than 120 g CO₂/km and over 100 models have received A+ or A energy-efficiency labels. We plan to use innovative technologies for locally emission-free mobility, and in particular new hybrid models, in order to further reduce the fuel consumption and CO₂ emissions of our cars.

We have also continuously reduced the pollutant emissions of our cars in recent years and have been able to meet new emission requirements in advance. For example, in 2009, Mercedes-Benz was one of the first manufacturers to begin introducing EURO 6 technology, which was not obligatory until September 2015. In 2016, Mercedes-Benz became the first manufacturer to offer diesel vehicles that already meet the more stringent Real Driving Emissions (RDE) limits that are scheduled to go into effect in the EU in September 2017. This achievement was made possible by a completely new four-cylinder diesel engine. This diesel engine is the first member of an extremely clean and efficient modular family of diesel and gasoline engines that will be utilized across the entire product range of Mercedes-Benz Cars, and also at Mercedes-Benz Vans.

Economical and low-emission trucks

In recent years, we have also continuously reduced the fuel consumption of our commercial vehicles, as well as their emissions of CO₂ and pollutants. Daimler was the first manufacturer to switch its entire European product range to Euro VI before the new emissions standard went into effect in January 2014. We have succeeded in lowering the fuel consumption of the Actros by as much as 6% through the introduction of the latest generation of the Mercedes-Benz OM 471 and OM 470 heavy-duty truck engines and the implementation of optimization measures for the entire vehicle. The new engines are being used in the heavy-duty Actros, Antos and Arocs trucks, and make all of those models among the most efficient trucks in their respective segments. Since the generational changeover in 2011, Mercedes-Benz has succeeded in continually reducing the fuel consumption of the Mercedes-Benz Actros by making numerous improvements to the drivetrain. In conjunction with the optimized 12-speed Mercedes PowerShift 3 transmissions, new low-friction engine oils, Predictive Powertrain Control (PPC) and aerodynamic measures, Actros customers in 2016 benefited from up to 15% lower fuel consumption in comparison with the predecessor model.

Mercedes-Benz has kept its promise to provide its customers with the most fuel-efficient vehicles on the market, as has been demonstrated in more than 3,000 comparison drives known as “fuel duels” that have been carried out by customers across Europe in recent years. Approximately 1,150 fuel duels were carried out in 2016. In these comparison drives, customers tested Mercedes-Benz trucks in their fleet against vehicles manufactured by leading competitors. The results speak for themselves: The Mercedes-Benz trucks came out on top in the fuel duels more than 90% of the time.

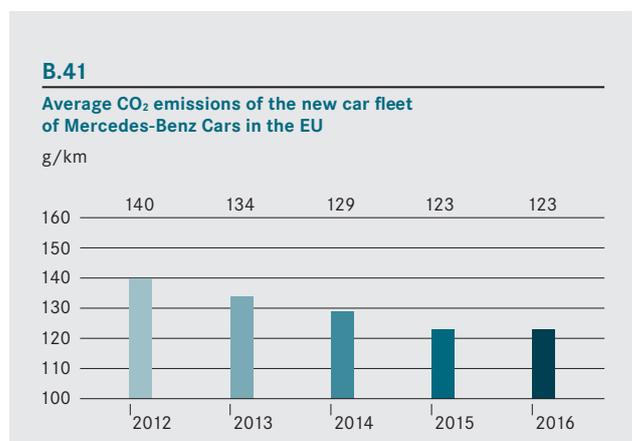
Our trucks also set the standards for fuel efficiency in North America, where we presented the new Freightliner Cascadia in September 2016. The Cascadia is the best-selling Class 8 truck in the NAFTA region. Development work on the new truck focused mainly on achieving further significant reductions in fuel consumption. The truck’s aerodynamic shape and state-of-the-art drivetrain components have played a major role in reducing fuel consumption by up to 8% compared to the 2016 Cascadia Evolution, which was already an extremely economical vehicle.

The consumption of diesel fuel can be greatly reduced also by hybrid technology – especially in commercial vehicles used for distribution transportation. For example, the latest FUSO Canter Eco Hybrid consumes up to 23% less fuel than a comparable diesel truck, depending on use, and the Freightliner M2e Hybrid consumes up to 30% less fuel than a conventional diesel-powered M2 106. Hardly any other commercial vehicle manufacturer has broader experience in the areas of alternative drive systems and electric mobility – ranging from vans and trucks to buses.

In Europe, we plan to reduce the fuel consumption of our truck fleet by an average of 20% over the period of 2005 to 2020. We are confident that we will achieve this ambitious target, and we took a further step in that direction with the introduction of the new generation of the OM 471 heavy-duty truck engine in 2015 and the slightly smaller OM 470 in 2016.

Efficiency Run 2016: Up to 20% lower fuel consumption and emissions

Mercedes-Benz Trucks and the trailer manufacturer Krone worked together to turn the concept of an “integrated approach” to reduce CO₂ emissions into reality in less than 12 months. The integrated approach incorporates every player in the haulage sector into efforts to reduce fuel consumption – i.e. commercial vehicle manufacturers, bodybuilders, tire suppliers, logistics companies and, last but not least, political decision-makers. The two companies’ development efforts within the framework of the integrated approach offer real benefits to customers. The Mercedes-Benz Actros presented at the 2016 IAA Commercial Vehicles show featured an efficiency package and the latest generation of the OM 471 six-cylinder inline engine, as well as the anticipatory Predictive Drivetrain Control system and A-label low rolling-resistance tires. When all of this is combined with the new Krone Profi Liner Efficiency trailer, the result promises to be a reduction in fuel consumption and CO₂ emissions of up to 20% compared to previous tractor-trailer combinations. The comparison is based on a standard semi-trailer-tractor combination from 2014. Thanks to the Efficiency Run, Mercedes-Benz Trucks and Krone were able to quickly transform the package of measures presented at the IAA to reduce fuel consumption and CO₂ emissions into specific standard products that can now be ordered.



Clean and efficient drive system technology for buses

Daimler is also leading the way in terms of the introduction of the latest exhaust technology for the bus sector. For example, all Mercedes-Benz and Setra model series were made available with Euro VI technology at a very early stage. A further reduction in the fuel consumption of our already efficient buses was achieved through the use of the new Mercedes-Benz engines. For example, the introduction of the new OM 471 diesel engine as well as various vehicle optimization measures has led to a further fuel-consumption reduction of around 4% in Setra coaches and the Mercedes-Benz Travego, despite higher performance and greater overall robustness. Assuming mileage of 100,000 kilometers per year and consumption of approximately 24 liters of diesel fuel per 100 kilometers, every coach equipped with a new-generation OM 471 engine saves around 1,000 liters of fuel and reduces CO₂ emissions by 2.5 tons per year. The Citaro NGT with natural gas drive is even cleaner and quieter than the conventional Citaros equipped with state-of-the-art Euro VI diesel engines. Moreover, the Citaro NGT's all-new M 936 natural-gas engine makes the bus the benchmark in its segment. The Citaro NGT is up to 10% more efficient than the predecessor model – and when organic natural gas is used, the vehicle is virtually CO₂ neutral. In parallel with the further optimization of the combustion engine, the next step along the path into the future is the battery-electric Citaro, which Daimler Buses plans to launch as a series-production model on the basis of the e-mobility platform in 2018.

Improved environmental performance of electric mobility

The first system batch of a second-use battery-energy storage unit went on line in Lünen, Westphalia, in September 2016 after less than a year of construction time. A total of 1,000 battery systems from second-generation smart fortwo electric drive cars have been grouped into a stationary battery-energy storage unit with a capacity of 13 MWh.

The efficient management of energy and material resources also applies to all components used in electric mobility applications. With this second-use battery storage unit, the joint venture between Daimler AG, The Mobility House AG and GETEC has a forward-looking answer to the key question regarding the reuse of electric vehicle battery systems. That's because the lifecycle of a plug-in or electric vehicle battery does not end after its automotive application. When used for stationary power storage, the systems remain fully operational, even after the service life guaranteed by the manufacturer; slight capacity losses are only of secondary importance here. It is estimated that such a unit can operate profitably in a stationary application for at least another ten years. Reusing modules from electric vehicles in a battery storage unit doubles their economic utility and also significantly improves their environmental performance.

The joint venture partners cover the entire battery value creation and recycling chain with their project in Lünen – from the manufacture and processing of battery systems at the Daimler subsidiary Deutsche ACCUMOTIVE and the corresponding range of electric and plug-in hybrid vehicles from Daimler AG, to the installation and marketing of stationary battery storage units in the energy markets by The Mobility House and GETEC, the recycling of the battery systems at the end of their lifecycle, and the return of the valuable raw materials back into the production cycle, which REMONDIS will be responsible for in the future.

car2go improves the quality of life in big cities

The flexible car sharing model car2go offers clear benefits not only to customers but also to cities and their residents. This was actually demonstrated in a three-year study published in 2016 and conducted by the University of California, Berkeley, in Washington, D.C., Vancouver, San Diego, Seattle and Calgary. According to the university's Transportation Sustainability Research Center (TSRC), every car2go vehicle can remove several private cars from the road, thus helping to reduce the traffic congestion in urban areas. Car sharing also significantly improves vehicle utilization. For example, whereas a private vehicle is only used for around one hour on average every day, car2go vehicles are driven for a period of about three hours daily, depending on the city in question. More than 70% of the private vehicles sold off by car2go members are at least ten years old – which means car2go removes thousands of cars with outdated exhaust gas systems from the road. In this sense, use of the extremely fuel-efficient, low-emission vehicles from car2go helps improve air quality. car2go vehicles are also often used for car-pooling purposes.

Extensive recyclability of old vehicles

To make our vehicles more environmentally friendly, we are reducing our automobiles' emissions and the resources they consume over their entire lifecycle. We therefore pay close attention to creating a recycling-friendly design already at the development stage. Up to 85% of the material in all Mercedes-Benz models is recyclable and as much as 95% of the material is reusable.

Other proven elements of our recycling concept are the resale of inspected and certified used parts, the remanufacturing of parts and the MeRSy Recycling Management workshop disposal system.

Avoiding waste

In the area of waste management, Daimler believes that recycling and the prevention of waste are better than disposal. Accordingly, the reconditioning and reuse of raw, process and operating materials has been standard practice at our plants for many years. In order to avoid the creation of waste from the outset, we use innovative technological processes and environmentally focused production planning. Waste materials that are unavoidable are generally recycled. As a result, the recycling rate for waste at our plants is over 91% on average. At some plants, almost 100% of the waste is now recycled, meaning that waste destined for landfills has been almost completely eliminated.

As we systematically pursue our environmental protection activities, we rely on comprehensive environmental management systems. Today, more than 98% of our employees worldwide work in plants whose environmental management systems have been certified as conforming to the ISO 14001 or EMAS environmental standards.

Environmental protection in production

In recent years we have been able to limit the energy consumption, CO₂ emissions, production-related solvent emissions and noise at our plants with the help of environmentally friendly production processes. As a result, energy consumption during the period 2012–2016 increased by only 1.2% to 10.9 million megawatt-hours, which was well below the rate of production growth. During the same period, CO₂ emissions actually decreased by 11.9% to 2.9 million metric tons. Our production-related CO₂ reporting follows the so-called Greenhouse Standard. This standard requires changed accounting as of reporting year 2016. We have decided to apply the so-called market-based method. Calculated on a basis comparable with the year 2012, CO₂ emissions would be 3.1 million tons in 2016, which is a reduction of 5.7% over a five-year period. As was the case in the prior year, our ongoing energy-saving projects enabled us to counteract the additional energy consumption and increase in CO₂ emissions that resulted from the rise in production in 2016. Energy consumption per manufactured vehicle (car) in the year under review decreased by 2.3% from the prior year, and CO₂ emissions were down by 5.6%. With resource-conserving technology such as circulation systems, water consumption despite production growth decreased by 1.5% between 2012 and 2016. In relation to the number of cars we manufactured, we were able to reduce water consumption by 5.0% compared with the previous year.

The workforce

Slight decrease in the number of employees

On December 31, 2016, the Daimler Group employed a total of 282,488 men and women (2015: 284,015). Contrary to the forecast included in Annual Report 2015, the number of employees decreased by 1% despite an overall increase in production. This was primarily caused by the headcount reduction at Daimler Trucks due to weak demand in major markets. The number of 170,034 employees in Germany remained at the prior-year level (2015: 170,454). Employee numbers in the United States decreased to 21,857 in 2016 (2015: 24,607), and the number of employees in Brazil decreased to 9,782 (2015: 11,669). At the end of 2016, Daimler employed a total of 10,535 men and women in Japan (2015: 11,002). ↗ **B.42** Our consolidated subsidiaries in China had a total headcount of 3,696 at the end of the year (2015: 3,155). At the end of the year under review, Daimler AG employed a total of 148,704 men and women (2015: 151,183).

Workforce numbers at the Mercedes-Benz Cars and Mercedes-Benz Vans divisions increased in 2016. The acquisition of Athlon by Daimler Financial Services led to a sharp increase in workforce numbers at that division. Daimler Trucks experienced a decline in workforce numbers in the year under review. The number of employees at Daimler Buses was just below the prior-year level. ↗ **B.43**

Around the world, we have combined in-house services, such as those for financial processes, HR, IT and development tasks, sales functions and certain location-specific services, into shared service centers. Some of the shared service centers are not consolidated because they do not affect our financial position, cash flow or profitability; those companies employed approximately 6,800 men and women at the end of 2016, like a year earlier.

The Group's total workforce also does not include the employees of companies that we manage together with Chinese partners; at December 31, 2016, they numbered approximately 19,500 people (2015: 19,000).

Attractive compensation

Our employees receive market-rate wages and salaries and additional benefits such as company pension plans that also conform to market practice. We also let our employees share in the success of their respective companies. For example, in April 2017, eligible employees of Daimler AG will receive a profit-sharing payout of up to €5,400 for financial year 2016 – the second-highest such payout in the company's history. In April 2016, we issued a profit-sharing payout of €5,650 for financial year 2015.

Number of years at Daimler

During the year under review, the average period of time that our employees had been working for Daimler increased slightly compared to the prior-year level to 16.3 years (2015: 16.0 years). In Germany, employees had worked for the Group for an average of 19.5 years at the end of 2016 (2015: 19.4 years). The comparative figure for Daimler AG was 20.1 years (2015: 19.9 years). Daimler employees outside Germany had worked for the Group for an average of 11.3 years (2015: 10.9 years).

B.42

Employees at 12/31/2016

By region

Germany	60.2%
Europe, excluding Germany	14.4%
USA	7.7%
Brazil	3.5%
Japan	3.7%
China*	1.3%
Other	9.2%



* excluding non-consolidated associated companies and joint ventures

B.43

Employees by division

	2016	2015	16/15
Employees (December 31)			% change
Daimler Group	282,488	284,015	-1
Mercedes-Benz Cars	139,947	136,941	+2
Daimler Trucks	78,642	86,391	-9
Mercedes-Benz Vans	24,029	22,639	+6
Daimler Buses	17,899	18,147	-1
Daimler Financial Services	12,062	9,975	+21
Other	9,909	9,922	-0

Slight increase in average age of our employees

The average age of our global workforce in 2016 was 42.7 years (2015: 42.5). Our employees in Germany were 44.2 years old on average (2015: 44.0). Employees who are 50 years old or older currently make up about 39% of our permanent workforce at Daimler AG. On the basis of current assumptions, this proportion will rise to about 50% over the next seven years.

Leadership 2020

Our business is changing at an unprecedented speed. This development is affecting not only technology, the legal framework and customer requirements, but also the way we work and communicate with one another, as well as forms of management. In order to remain as successful in the future as we have been over the past 130 years, we need to undergo an internal cultural transformation and develop a new management culture. This is why we launched the Leadership 2020 initiative in January 2016.

To get the program started, we selected 144 managers from 24 countries and all management levels and asked them to develop proposals for a new management culture at Daimler. After being divided into eight teams around the world, the participants worked separately on developing new management approaches, but were given no specific instructions for this task. They ended up defining eight thematic areas – referred to as game changers. These game changers take the form of processes and procedures that question, alter or even break down established structures in order to facilitate a new management culture. We also defined eight leadership principles that will form the basis of our future management approach and guide the actions of both employees and managers.

The initial results from the working groups are now being implemented. For example, decision processes were standardized and simplified; this demonstrates that we are placing greater trust in our employees. In addition, a Daimler Campus Community innovation network has been created to establish an exchange between numerous existing institutions, processes and initiatives related to innovation, and to strengthen the networks between them. In this way, we are nurturing our most important asset – our pioneering spirit.

Within the framework of Leadership 2020, members of the management staff will have additional opportunities for further development. The objective is that the right employees are working in the right positions at the right time at Daimler. A new, digital and global job platform offers interested parties access to all vacant positions worldwide. The remuneration system is also being revised. In the future, bonuses are to be oriented to the success of the Group, and no longer dependent on individual target achievement. This is intended to make senior executives feel more responsible for Daimler's success, and to measure their success less in terms of personal goals.

For more information about Leadership 2020, see  pages 56 f.

Successful employee survey

We conducted a Group-wide employee survey once again in 2016. The survey is a key indicator of where we currently stand from the point of view of our employees, and of what we need to do to improve the Group in the future. In September, nearly 263,000 employees in more than 40 countries were invited to participate in the survey and express their opinions to us. The outstanding participation rate of 76% underscores our employees' interest and their willingness to actively help shape Daimler's further development. Overall, the results of the survey were much better than those from previous years. For example, employee commitment is above average in comparison with external benchmarks. The careful and detailed analysis of the results began in early December. The analysis will identify areas where action needs to be taken in order to achieve sustained improvements for the benefit of the Group and our employees.

Mobile working

Employees are increasingly demanding more flexible working hours in line with the requirements of a modern lifestyle. In response to this development, Daimler's top management launched an initiative in 2015 together with the Group's General Works Council, the IG Metall trade union and the Fraunhofer Institute. This initiative featured surveys and brought together executives and employees for a broad dialogue that addressed employees' experience with mobile work and identified the associated regulatory requirements and limitations. The process led to the creation of a new forward-looking Group-wide agreement that went into effect on December 1, 2016. The agreement stipulates a right to mobile working, provided the tasks in question permit it. In general, greater flexibility and autonomy for employees, as well as an extensive culture of trust, enhance the attractiveness of Daimler as an employer.

Work and family

We help both male and female employees to manage career and family responsibilities in line with their individual situations through the implementation of numerous company agreements, flexible working conditions and working-time models, and the provision of daycare services and services for caring for family members. We also give employees the opportunity to take time off for continuing education, the pursuit of personal interests or the care of family members by offering sabbaticals, nursing leave and similar programs that go beyond legal requirements.

Diversity management

The statement "Diversity shapes our future" underscores the importance of diversity management as a strategic factor for success at Daimler. The various skills and talents of our workforce enable us as a global company to effectively reflect the diversity of our customers, suppliers and investors around the world.

Increased proportion of women in management positions

As early as 2006, Daimler committed itself to raising the proportion of women in senior management positions at the Group to 20% by the year 2020. The proportion of women in such positions has continually risen in recent years to reach 16.7% at the end of 2016 (2015: 15.4%). Our instruments for supporting the targeted promotion of women include mentorships, special events and training measures, as well as employee networks.

In order to fulfill the requirements of new legislation on the equal participation of women and men in management positions, the Board of Management has set targets for the proportion of women at the two executive levels below the Board of Management, and a deadline for achieving those targets. In setting all targets, we have taken industry-specific circumstances into consideration. Further details are provided in the Corporate Governance Report on [pages 214 f](#) of this Annual Report.

Securing young talent

Daimler takes a holistic approach to securing young talent. Our “Genius” initiative gives children and teenagers valuable insights into future technologies and information about jobs in the automotive industry. Along with technical and commercial apprenticeships and courses of study at the Cooperative University, we also conduct various activities that address young talents. In addition, we offer extensive possibilities to personally interact with the company via social media, hackathons, competitions and internships. After completing their college degrees, graduates can directly join our company or launch their careers at Daimler by taking part in our global CAREer training program.

We had 7,960 trainees worldwide at the end of 2016 (2015: 8,307). A total of 1,883 young people began their vocational training at Daimler in Germany during the year under review (2015: 1,871). The number of people we train and subsequently hire is based solely on the Group’s needs and its future development. In 2016, 88% of Daimler trainees in Germany were hired after completing their apprenticeships (2015: 84%).

Employee qualification

We provide our staff with training and continuing education opportunities throughout their careers in order to safeguard the long-term innovative capability and outstanding performance of our workforce. Our range of qualification measures includes practical training courses, seminars, workshops, specialist conferences and financial support for employees who conduct a course of study while continuing to work. In Germany alone, we spent €131 million on the training and qualification of our employees in the year under review (2015: €126 million). On average, every employee spent three days on qualification courses in 2016 (2015: four days).

Assistance for refugees

Since 2015, Daimler has been offering “bridge internships” for refugees who have good prospects of staying in the country in order to support their professional integration into the German labor market. The process of selecting refugees for the program is carried out in close cooperation with the Federal Employment Agency and local job centers in Germany. More than 500 refugees have completed or are currently participating in bridge internships at all Group locations in Germany. The 14-week internships include alternating days of German language instruction and production work. Experience to date has shown that the internships can lead to jobs in Germany but that additional language skills often need to be acquired as well. Daimler has also created 50 additional trainee positions for young refugees with a good knowledge of German. These positions are being gradually filled. For information on other assistance for refugees, [page 136](#).

Social responsibility

Contributing to the development of society

For us, business success and social responsibility go hand in hand. As a company with a global presence, we seek to help shape the social environment and to promote an intercultural dialogue worldwide. To this end, we support education, science, the arts and culture, as well as efforts to improve environmental protection. We also support initiatives for greater traffic safety and promote charitable commitment among our employees.

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In 2016, we spent around €60 million on donations to non-profit institutions and on sponsorships of socially beneficial projects. This does not include our foundations and corporate volunteering activities or self-initiated projects.

As was the case in previous years, we once again supported democratic parties in Germany in 2016, donating a total of €320,000. As in 2015, the CDU and SPD parties each received €100,000 while the FDP, the CSU and BÜNDNIS 90/DIE GRÜNEN each received €40,000.

Science funding

Sustainable development cannot be achieved without the targeted funding of science, research and technology worldwide. The international exchange of knowledge and the funding of innovations are key drivers of developments in these areas. We therefore support universities, research institutes and interdisciplinary science projects around the globe. We have consolidated these activities in foundations.

Environmental protection and technical safety are two key scientific areas supported by the Daimler and Benz Foundation. Endowed with €125 million, the foundation promotes research that can have a major impact on the development of society. That includes research on autonomous driving. To this end, we have established a mobility think tank to examine the impact and socially relevant aspects of autonomous driving. The Daimler and Benz Foundation has also invested around €1.5 million in the “Villa Ladenburg” project, which studies the effect of autonomous driving on normal road traffic. daimler-benz-stiftung.de

The German Future Prize is one of the most prestigious awards conferred for innovation and technology in Germany and is presented by the President of Germany. The Daimler fund works within the framework of the Donors’ Association for the Promotion of German Science to support this annual award for outstanding achievement in technology, engineering and the natural sciences. stifterverband.org

Education

Providing more people with access to education is one of the most lasting investments for the benefit of society and also our company. The numerous education projects we fund around the world promote interest in and passion for science and technology, as well as the ability to look beyond the working world and remain open to new ideas. The projects we support also promote equal opportunities.

More curiosity – more future: This is the motto of the education initiative “Genius – Daimler’s young knowledge community.” The initiative is targeted at children and teenagers and their teachers. The latter are given special training and provided with teaching materials that introduce children to new automotive technologies in an entertaining and practical way, and which also get them interested in technology and research.

 genius-community.com

The “Each Girl is a Star” project at Mercedes-Benz Turkey has now provided training and financial grants to more than 3,900 girls and young women in 56 Turkish cities. The project gives underprivileged girls and young women the opportunity to attend a vocational college and enter professions traditionally occupied by men.

Traffic safety

As we move along the “road to accident-free driving,” we are utilizing assistance systems to ease the burden on drivers and to protect and support them in dangerous situations. More importantly, we also seek to ensure that everyone on streets and roads remains safe. We pursue this goal with traffic-education projects for schoolchildren and safety training programs for adults, for example.

In 2016, our “MobileKids” program celebrated 15 years of successful traffic-safety training. To date, MobileKids has made more than two million children fit for road traffic in Germany and around the world.  mobilekids.net

Daimler’s local subsidiaries in India have also launched a new traffic safety campaign known as “Safe Road Project – A Safety Initiative” in order to help reduce the large number of traffic fatalities in the country. The goal here is to make people in India more aware of traffic safety issues and the possibilities for utilizing vehicle safety systems.

Nature conservation

We share responsibility for preserving the diversity of natural habitats for future generations. That is why we have been supporting the projects and initiatives of environmental organizations around the world for many years now, as we help to make sure the earth remains a place worth living in.

In India, Brazil and Mozambique, we are carrying out projects with Caritas International that promote the sustainable use of water resources. Climate change is threatening to make entire tracts of land uninhabitable in those countries. Here, project workers are creating reliable water supply systems and providing training and knowledge to local farmers.

The arts and culture

A rich cultural life and a vibrant art scene foster creativity and innovation. It is therefore very important to us to support the arts and culture.

As a patron of the International Bachakademie Stuttgart, we support the MUSIKFESTUTTGART music festival, and we also served as the main sponsor for the BACHBEWEGT!SINGEN! project in 2016. Johann Sebastian Bach’s “Christmas Oratorio” was featured in a family concert held for people of all ages in which around 250 pupils performed in a professional setting with the Bachakademie ensemble.

Mercedes-Benz supports the functional fashion concepts for people with disabilities created by the Bezgraniz Couture (“Fashion without Borders”) organization, which was established in 2010. The “wearABLE Future” collection, for example, stands out through adaptable high-tech features especially designed for people with physical disabilities. The Bezgraniz fashion brand has put on special fashion shows during Mercedes-Benz Fashion Week Moscow in the past, and in October 2016, it staged presentations during Fashion Week Los Angeles for the first time.

Communities and charitable projects

For us, being a global company means we have a global responsibility. That is why we support the social environment at our locations as well as a wide variety of aid projects around the world. Our efforts here go beyond assistance in the aftermath of natural or man-made disasters. We also set up longer-term projects aimed at helping people to help themselves.

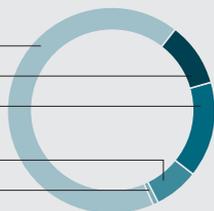
Haiti was recently devastated once again by a natural disaster: After experiencing a severe earthquake in 2010, the country was hit hard by Hurricane Matthew in October 2016. Hundreds of people died in the storm. In the aftermath, Daimler and Germany’s Foreign Office funded aid projects carried out by the German Red Cross. The projects focused mainly on securing access to clean water and conducting a broad-based cholera vaccination campaign. Tools and materials for cleanup work and restoring the country’s severely damaged agriculture were also supplied.

As a company, we also take our social responsibility very seriously. This is why we are helping migrants integrate into the German workforce and society. Our “bridge internship” especially helps pave the way for refugees to enter the German labor market without major bureaucratic hurdles. For more information on this topic,  [page 135](#).

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Donations and sponsoring in 2016

Charity & Community	67%
Arts & Culture	10%
Education	15%
Science & Technology & Environment	7%
Political dialog	1%



Many of our employees also support refugees through numerous donation campaigns or the performance of volunteer work. In 2016, for example, staff members helped renovate refugee shelters and build playgrounds for children. Daimler paid for all the required materials and ensured the work was carried out under professional supervision. The company also regularly makes an “Aid Fleet” of Mercedes-Benz vehicles available to several aid organizations.

Employee commitment

The efforts of our employees to help communities and promote the common good around the globe manifest themselves in initiatives that go beyond the refugee assistance campaigns. These initiatives demonstrate just how seriously our employees take their responsibility, and how willing they are to offer opportunities to people at the very fringes of society.

In the ProCent initiative, for example, Daimler employees voluntarily donate the cent amounts of their net salaries to socially beneficial projects. The company matches every cent donated. Approximately €1 million was collected in this manner in 2016.

For example, the proceeds from the ProCent initiative were donated to a canine rescue squad at ASB – the Workers’ Samaritan Federation, which needed a new trailer to transport materials. Donations were also given to the Verein zur Förderung der Kinder- und Jugendhilfe e. V. Zeiskam, a children and youth aid organization, which used the funds to build an outdoor playground and a garden for children to work and learn in.

Dialogue and understanding

As a company that operates around the world, we support projects and institutions that promote intercultural dialogue in the interest of mutual understanding and the peaceful coexistence of cultures. We also support initiatives for the strengthening of democracy.

For example, Daimler supports grants for 15 to 18-year-old German students that allow them to spend a year in the United States under the auspices of the Daimler-Byrnes Scholarship. The program is designed to get students interested in the transatlantic relationship. The students receive extensive intercultural training to prepare them for their role as ambassadors of their country.

More information on the projects promoted by the Group and the activities related to our social commitment can be found in the Daimler Sustainability Report and on our website under “Sustainability.” [daimler.com/sustainability](https://www.daimler.com/sustainability)

A culture of integrity

Integrity is one of the four corporate values that form the foundation for our business activities. A culture of integrity is the prerequisite for remaining successful in the future. That is because only those who act responsibly can achieve sustained business success over the long term. Integrity and compliance are therefore an integral part of our daily business activities. This goes beyond complying with the law. It also includes aligning our actions with shared values. This shared understanding of values enables us to make the right decisions also in difficult situations.

In order to further advance our culture of integrity, we conduct an ongoing and open dialog with our employees. We regularly address integrity issues in our internal media and make a wide range of materials available to our business units. We also value personal discussion. That is why we regularly conduct dialog events with employees at all levels of the hierarchy, as well as with external stakeholders. Such events are held in our markets abroad as well.

Integrity Code

Our Integrity Code is one of the most important results of the employee dialogs we have been conducting since 2011. The Code is based on a shared understanding of values agreed upon with our employees and lays out the principles for our everyday business conduct. These principles include fairness, responsibility, mutual respect, transparency, openness and compliance with laws. The Code is valid throughout the Group and is available in 23 languages. A guide is available on the Group’s intranet to support the employees in the application of the Code in everyday situations, providing answers to frequently asked questions.

Requirements for managers

Our Integrity Code also defines requirements for managers, who are expected to serve as role models in terms of ethical behavior and to provide employees with orientation. All training seminars for new managers therefore include integrity modules that help them fulfill their responsibilities.

In addition, integrity and compliance requirements are important criteria in the target agreements and in assessing the annual target achievement of our managers. They are also part of the agreed-upon objectives for the remuneration of the Board of Management.

Contact and advice center

Our “Infopoint Integrity” serves as a central contact and advice center for our employees. The Infopoint team offers advice on integrity-related issues in the daily work environment and puts employees in touch with the right contact partner if necessary.

Communicating with employees

Further measures from our integrity strategy complement the range of information and advice offered on issues related to integrity. We use various event formats to approach these issues from different viewpoints and encourage the participants to think about integrity. For example, we conduct business simulations that enable employees to experience and discuss the relevance of integrity to daily business operations from a new viewpoint. We also have a network of integrity contact persons who help the business units address their specific issues in a targeted manner. In addition, we produce target-group-specific materials for managers who wish to raise awareness of integrity and potential ethical dilemma situations in their departments.

Extensive training program

The Integrity Code forms the basis for the extensive range of training courses we offer. Our integrated training program is defined on the basis of an annual planning cycle that starts with a needs analysis, extends through the implementation of the program and ends with a monitoring process. Among other things, the program covers the topics of integrity, compliance, data protection and antitrust law. Depending on the risk and the target group, we use classroom training or digital learning techniques such as web-based training courses. Basic web-based training courses on integrity, compliance and legal issues are offered to all employees with e-mail access. Every Daimler employee, regardless of position, professional field or location, must complete this training session as part of a "Welcome Package" when joining the company. The session also has to be repeated at regular intervals later on. In 2016, a total of approximately 73,000 employees from various hierarchy levels attended training courses or participated in web-based training courses.

Advisory Board for Integrity and Corporate Responsibility

The Advisory Board for Integrity and Corporate Responsibility has been an important source of input for Daimler since 2012. The Advisory Board consists of independent external experts from the fields of science, business and politics and from non-governmental organizations. These experts support the integrity process at Daimler critically and constructively from an external perspective. The members of the Advisory Board have extensive experience in addressing ethical issues and contribute their different points of view to the discussion of integrity.

Compliance programs

We aim to act in accordance with ethical principles and to comply with all applicable laws, internal regulations and voluntary commitments. We pay particular attention to complying with all applicable anti-corruption regulations and to ensuring the maintenance and promotion of fair competition, as set out in binding form in our Integrity Code.

Effective Compliance and Legal department structures

Our effective Compliance and Legal department structures play a key role in ensuring that all rules and regulations are adhered to throughout the Group. Our Compliance organization is structured in a divisional and regional way, while our Legal department is organized along the value chain and regionally. This structure enables us to offer optimal support and advice to our divisions. For this purpose, a contact person is assigned to each function, division and region. In addition, local contact persons around the world make sure that our standards are observed. The divisional compliance officers and the regional compliance officer report directly to the Chief Compliance Officer. This ensures the divisional and regional compliance officers' independence from the divisions. The Chief Compliance Officer and the Group General Counsel report directly to the member of the Board of Management responsible for Integrity and Legal Affairs. The Chief Compliance Officer also reports to the Audit Committee of the Supervisory Board.

We offer target-group-specific qualification courses within our integrated training program in order to make sure our employees in the Compliance organization and Legal department are up to date on changes made to laws and regulations. All new Compliance and Legal department employees also receive a comprehensive introduction to their functions in a special practice-oriented seminar.

Compliance Management System

Our compliance management system is based on national and international standards and supports us in ensuring compliant behavior in daily operations at all of our business units. We regularly review the effectiveness of the system and adjust it to worldwide developments, changed risks and new legal requirements. Thus, we continuously improve its effectiveness and efficiency, also with regard to compliance with technical regulations relating to our products. In particular, this is a matter of identifying regulatory risks in the product-creation process, in order to protect the Daimler Group, its employees and its brands. Our various compliance programs are based on our compliance management system (CMS). We would like to present the following areas by way of example:

Whistleblower system BPO (Business Practices Office)

The whistleblower system BPO enables Daimler employees and external whistleblowers to report misconduct anywhere in the world. The office is available to receive information around the clock. This information can be sent by e-mail or normal mail, and it can also be provided by calling an external toll-free hotline or by filling out a reporting form. The information can be submitted anonymously if local law permits. In Germany, reports to the BPO can also be submitted via a neutral intermediary – in this case, an independent external attorney. The BPO system enables us to learn about potential risks and specific violations, thus preventing damage to the company and its reputation. Our globally valid corporate policy ensures a fair and transparent approach that takes into consideration the principle of proportionality for affected parties, while also giving protection to whistleblowers.

Sharing experience of compliance in practice

Sharing experience in the area of compliance policies and measures is very important to us, and we have therefore created the Daimler Compliance Academy in order to establish a platform for such sharing. The academy's annual practical seminar is designed for compliance experts from all business sectors, managing directors, and other individuals who are interested in compliance issues. The seminar focuses on a discussion of compliance trends and challenges. The Daimler Compliance Academy was held for the third time in 2016. During the reporting year, we also held our first conference on combating money laundering in the trade with goods.

Systematic minimization of compliance risks

We systematically minimize compliance risks. We analyze and assess the compliance risks of all our business units every year. The results of this analysis form the basis of our risk management. One focus of our risk minimization activities is on sales companies in high-risk countries. The responsibility for implementing and monitoring the associated measures lies with each company's management, which cooperates closely with the relevant departments within Integrity and Legal Affairs.

Compliance at our business partners

We also require our business partners to adhere to clear compliance stipulations, because we regard our business partners' integrity and behavior in conformity with regulations as an indispensable precondition for cooperation based on trust. In the selection of our direct business partners, we therefore make sure that they comply with the law and observe ethical principles. Within the framework of our integrated training program, we also offer our business partners special training courses on integrity and compliance in line with the specific risks they face. In 2016, we published a "Compliance Awareness Module" that can be made available to our business partners on request and is designed to increase awareness of the latest compliance requirements. We also reserve the right to terminate our cooperation with business partners who fail to conform to our standards. For the expectations we place on our business partners, see also  daimler.com/sus/obr.

Anti-corruption compliance

Anti-corruption compliance is ensured with a system applied worldwide that primarily comprises integrated risk assessment, risk-based measures for the avoidance of corruption in all business activities (such as reviews of business partners and transactions) and special care in contacts with public officials. We have achieved a recognized high standard in the avoidance of corruption and place the same strict requirements on all of our activities around the world. We are continually further developing our methods and processes.

Antitrust compliance

Our Group-wide antitrust compliance program is oriented to national and international standards. The program establishes a binding, globally valid Daimler standard that defines how matters of competition law are to be assessed. The Daimler standard is based on the strict standards of the European antitrust authorities and courts. Its existence ensures a uniform level of compliance and advice in all countries.

By means of training courses, an advisory hotline specially set up by our Legal department, guidelines and practical support, we help our employees to recognize situations that might be critical from an antitrust perspective and to act in compliance with regulations in their daily work.

The results of our compliance risk analysis form the basis of our risk management and of the definition of measures to be taken to counteract any risks related to antitrust law. We also carry out monitoring activities in our corporate units. They help us to continually improve the effectiveness of our antitrust compliance program and to adjust it to worldwide developments and new legal requirements.

In order to ensure an independent external assessment of our antitrust compliance program, the KPMG Wirtschaftsprüfungsgesellschaft audited the compliance management system for antitrust law in accordance with the 980 standard of the Institute of Public Auditors in Germany. This audit, which was based on the principles of appropriateness and effective implementation, was successfully completed at the end of 2016.

Data protection compliance

The Corporate Data Protection department provides worldwide support to all Group companies and helps to ensure compliance with data protection requirements. The Chief Officer Corporate Data Protection is independent and reports directly to the Board of Management Member for Integrity and Legal Affairs. The annual data protection report is submitted to the Supervisory Board. Our Data Protection Policy creates a uniform standard applicable worldwide for handling data of employees, customers and business partners, and meets the requirements of the European Data Protection Directive. The Corporate Data Protection Department is the contact point for data protection complaints, carries out checks and audits, ensures employees' awareness of data protection and advises the relevant departments. The focus of product-related advice is data protection for connected vehicles and autonomous driving functions, as well as mobility services.

Anti-money laundering compliance

Our anti-money laundering policy is designed to prevent money laundering and the financing of terrorism in the trade with goods. It forms the basis for ensuring that legislation in various countries is complied with throughout the Group. The Chief Compliance Officer serves as the anti-money laundering officer of Daimler AG. A center of competence supports the Chief Compliance Officer in the management and coordination of money laundering prevention measures in the goods trade.

Sanction lists compliance

We consistently comply with sanction lists and thus ensure that the legal sanctions specified by legislation are observed. We have introduced a risk-focused, system-based global process in order to ensure that this compliance is effective and efficient.

Overall Assessment of the Economic Situation

In the opinion of the Board of Management, the Daimler Group's economic situation continues to be very satisfactory at the time of publication of this Annual Report. In recent years, we have implemented our strategy effectively and with great determination. This already led us onto a stable and profitable growth path in the year 2014, along which we progressed further in 2015 and 2016. Revenue and unit sales surpassed the prior-year levels, and the Daimler Group's EBIT adjusted for special items was also higher than in the previous year, as we had already forecast in Annual Report 2015. It is noteworthy that we achieved this profitability target although the economic conditions for our truck business developed very unfavorably in various markets. This shows that we have adapted our business model so that we can generate reasonable earnings also in a difficult environment. In this regard, we have made great progress in recent years, and we will continue working on it in the future. This is one of the main reasons why our profitability is sound, and for this reason we have the resources to focus our business activities on the future: with outstanding vehicles, innovative services and tailored solutions for the mobility of tomorrow.

In the year under review, we increased our unit sales to a total of 3.0 million cars and commercial vehicles (2015: 2.9 million). Thanks to numerous new and successful products, Mercedes-Benz Cars and Mercedes-Benz Vans set new records for unit sales. Daimler Trucks' and Daimler Buses' unit sales decreased significantly due to the extreme weakness of some major markets. Driven primarily by the positive development of the car and van business, the Daimler Financial Services division also continued to grow in 2016. The Daimler Group's revenue therefore also increased – by 3% to €153.3 billion. Adjusted for exchange-rate effects, revenue also grew by 3%.

The Daimler Group's operating profit (EBIT) adjusted for special items of €14.2 billion was higher than in 2015 (€13.8 billion). Each of the Mercedes-Benz Cars, Mercedes-Benz Vans, Daimler Buses and Daimler Financial Services divisions increased its EBIT, while Daimler Trucks posted lower EBIT in line with the development of its unit sales. But in the automotive business overall, we once again achieved our target for return on sales adjusted for special items of 9%, and Daimler Financial Services' return on equity was also at the targeted level of 17%.

As a result of the positive development of earnings, we once again achieved a very good return on net assets of 19.2% (2015: 20.1%). We therefore once again earned substantially more than our targeted minimum return on capital employed (8%). This is reflected by our value added of €5.3 billion, which almost equaled the prior-year figure (2015: €5.4 billion).

In line with the ongoing high level of earnings, we continue to have very sound key financial metrics. This is confirmed also by the rating agencies Standard & Poor's Global Ratings (S&P) and Moody's Investors Services (Moody's). S&P upgraded the long-term credit rating of Daimler AG from A- to A in November 2016. In early February 2017, Moody's also raised Daimler's long-term credit rating A3 to A2. In both cases, the short-term ratings were raised as well: from A-2 to A-1 and from P-2 to P-1 respectively.

The Group's overall equity ratio and the equity ratio of the industrial business remained at the high levels of 22.9% and 44.7% respectively (2015: 23.6% and 44.2%). The net liquidity of the industrial business increased to €19.7 billion at the end of 2016 (2015: €18.6 billion). The free cash flow of the industrial business – the parameter we use to measure financial strength – was once again significantly higher than the dividend distribution at €3.9 billion (2015: €4.0 billion). This was achieved although we significantly increased our investment in intangible assets and property, plant and equipment.

We want our shareholders to participate appropriately in the very good level of earnings achieved by Daimler once again in 2016. At the Annual Shareholders' Meeting on March 29, 2017, the Board of Management and the Supervisory Board will therefore propose a dividend of €3.25 per share (prior year: €3.25). The dividend distribution will be unchanged from the previous year at €3.5 billion.

In order to implement our growth strategy with new products, innovative technologies and modern production capacities, we increased the expenditure for securing our future in 2016 from an already very high level by a total of €1.8 billion to €13.5 billion: €7.6 billion for research and development (2015: €6.6 billion) and €5.9 billion for investment in property, plant and equipment (2015: €5.1 billion).

This substantial expenditure is necessary because the automotive industry is facing a fundamental transformation. And as the inventor of the automobile, we intend to play a major role in shaping the mobility of the future. In this context, we are increasingly focusing on strategic areas for the future: connected, autonomous, shared & services and electric. We plan to occupy a pioneering position in these areas - in each of them individually as well as by linking them up intelligently. Our innovative vehicles and services are already trendsetters for future mobility. For example, our new E-Class is extensively connected and available to our customers in partially automated mode, and we are at the forefront in truck technology with the Freightliner Inspiration Truck and the Actros with Highway Pilot. And with the Mercedes-Benz Future Bus in 2016, we were the first manufacturer worldwide to present a city bus that drives in partially automated mode in real traffic on a Bus Rapid Transit route (BRT).

In addition, Daimler started a broad offensive in the field of electric mobility in all its divisions in the year under review. This includes the new plug-in hybrids from Mercedes-Benz Cars as well as the new electric smart models, the DENZA 400, which we have developed for the Chinese market together with our partner BYD, the new FUSO eCanter and also a completely new fuel-cell vehicle on the basis of the GLC with plug-in technology. The offensive also includes the concept vehicles Concept EQ, Mercedes-Benz Urban eTruck and Mercedes-Benz Vision Van, with which we are providing a very concrete view of the connected mobility of the future.

A key component of our growth strategy is systematic digitization. It is leading to far-reaching changes in society, in competition, with customers, and ultimately in everything we do. It is changing our products, our services, our customer contacts and the way in which we act within our company. It is also a trailblazer for new mobility concepts and allows the creation of new business models in connection with mobility and transport. In order to be at the forefront of this fundamental transformation, we are pushing forward with digitization at all levels, in all stages of the value chain, and with a clear focus on our customers. On the one hand, this is about the ever increasing connectivity of our products: with customer-oriented digital services, new business models and digital communication with customers - from the initial contact and through the entire customer relationship. Through the digitization of the entire value chain, we are able to shorten development processes and to make production more flexible and sales and marketing more direct. By making intelligent use of growing quantities of data and connecting all levels of value added, we are creating efficiency advantages, enhancing quality and facilitating further flexibility of the entire production process.

To make sure that we successfully undergo the transformation from automobile manufacturer into a full-range provider of innovative mobility solutions, we need new patterns of thought and action. Our goal is to combine the flexibility and risk culture of the digital industry with the perfection and innovative skills of our company. So together with the workforce, we are developing a new management culture under the roof of "Leadership 2020," which will ensure our success also in the future. In this way, we are fulfilling the requirements of the digital world and creating space for cultural changes.

We are very well positioned for the upcoming challenges with our growth strategy, the digitalization offensive, innovative products and mobility solutions, high levels of investment in the future of the Group and the renewal of the corporate culture. We are on a stable growth path, which we will continue to follow systematically. We therefore look to the future with great confidence and continue to aim for further profitable growth.

Events after the Reporting Period

On January 31, 2017, Mitsubishi Fuso Truck and Bus Corporation sold land and buildings for a price of €336 million. This results in income at the Daimler Trucks segment of approximately €250 million in 2017.

Since the end of the 2016 financial year, there have been no further occurrences that are of major significance for Daimler. The course of business in the first weeks of 2017 confirms the statements made in the "Outlook" section of this Annual Report.

Remuneration Report

The Remuneration Report summarizes the principles that are applied to determine the remuneration of the Board of Management of Daimler AG, and explains both the level and the structure of its members' remuneration. It also describes the principles and level of remuneration of the Supervisory Board.

Principles of Board of Management remuneration

Goals

The remuneration system for the Board of Management aims to remunerate its members commensurately with their areas of activity and responsibility and in compliance with applicable law. The adequate combination of non-performance-related and performance-related components of remuneration is designed to create an incentive to secure the Group's long-term success. The fixed component of remuneration is paid as a base salary; the variable components are intended to reflect, clearly and directly, the joint and individual performance of the members of the Board of Management as well as the long-term performance of the Group. The interests of all stakeholders, in particular those of the shareholders as the owners of the Company and those of the employees, are harmonized through the focus on the Group's long-term success.

Practical implementation

For each upcoming financial year, the Presidential Committee at first prepares a review by the Supervisory Board of the system and level of remuneration on the basis of a comparison with competitors. The main focus is on checking for appropriateness, based on a horizontal and vertical comparison. In the horizontal comparison, the following aspects are given particular attention in relation to a group of comparable companies in Germany:

- the effects of the individual fixed and variable components, that is, the methods behind them and their reference parameters;
- the relative weighting of the components, that is, the relationship between the fixed base salary and the short-term and long-term variable components; and
- the target remuneration consisting of base salary, annual bonus and long-term variable remuneration, also with consideration of entitlement to a retirement pension and fringe benefits.

The vertical comparison focuses on the ratio of Board of Management remuneration to the remuneration of the senior executives and the entire workforce of Daimler AG in Germany, also in terms of development over time. The Supervisory Board has defined the group of senior executives for this purpose.

In carrying out this review, the Presidential Committee and the Supervisory Board consult independent external advisors to help determine the appropriateness of remuneration at the company.

If the review results in a need for changes to the remuneration system for the Board of Management, the Presidential Committee submits the relevant proposals to the entire Supervisory Board for its approval.

On the basis of the approved remuneration system, the Supervisory Board decides at the beginning of the year on the base and target remuneration for the individual members of the Board of Management as well as on total remuneration limits. It also decides on the relevant success parameters for the upcoming financial year. Furthermore, individual goals are decided upon for each member of the Board of Management for the respective areas of personal responsibility; those goals are then taken into consideration after the end of the financial year when the annual bonus is decided upon by the Supervisory Board.

For the long-term variable component of remuneration, which is referred to as the Performance Phantom Share Plan (PPSP), the Supervisory Board sets an amount to be granted for the upcoming financial year in the form of an absolute amount in euros and sets the related performance targets.

After the end of each year, target achievement is measured and the actual remuneration is calculated by the Presidential Committee and is submitted to the Supervisory Board for its approval.

The system of Board of Management remuneration in 2016

The fixed base salary and the annual bonus each continue to comprise approximately 29% of the target remuneration, while the variable component of remuneration with a long-term incentive effect (PPSP) makes up approximately 42% of the target remuneration. [➤ B.45](#)

As before, only 50% of the annual bonus is paid out in the March of the following financial year. The other 50% is paid out a year later (deferral) with the application of a bonus-malus rule, depending on the development of the Daimler share price compared with an automotive index (Dow Jones STOXX Auto Index) [🔗 pages 80f.](#), which Daimler AG uses as a benchmark for the relative share-price development. Both the delayed payout of the portion of the annual bonus (with the use of the bonus-malus rule) and the variable component of remuneration from the PPSP with its link to additional, ambitious comparative parameters and to the share price reflect the recommendations of the German Corporate Governance Code and give due consideration to both positive and negative business developments.

With regard to the PPSP, an additional limitation of the target achievement for the reference parameter return on sales remains in place for plans from 2015 onwards, if the strategic target for return on sales (currently 9%) is not achieved.

The maximum amounts of remuneration of the members of the Board of Management are limited, both overall and with regard to the variable components.

As in the prior year, the maximum amounts of remuneration of the members of the Board of Management were set for financial year 2016 at 1.9 times the target remuneration for its members and 1.5 times the target remuneration for its Chairman. The target remuneration consists of the base salary, the target annual bonus and the grant value of the PPSP, excluding fringe benefits and retirement benefit commitments. With the inclusion of fringe benefits and retirement benefit commitments from the respective financial year, the maximum limit of total remuneration increases by these amounts. The possible cap on the amount exceeding the maximum limit takes place with the payment of the PPSP issued in the relevant financial year, i.e. for the year 2016, with payment of the PPSP in 2020. [➤ B.46](#)

The individual components of the remuneration system are as follows:

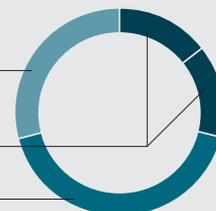
The **base salary** is fixed remuneration relating to the entire year, oriented towards the area of responsibility of each Board of Management member and paid out in twelve monthly installments. [➤ B.47](#)

B.45

Remuneration structure

Target remuneration consists of non-performance-related and performance-related components:

base salary (non-performance-related)	approx. 29%
short- and medium-term performance-related components	approx. 29%
long-term performance-related components	approx. 42%



B.46

Maximum limit of total remuneration¹ 2016

Chairman of the Board of Management	1.5 times the target remuneration ¹
Members of the Board of Management	1.9 times the target remuneration ¹

Base salary in 2016
 + target bonus = 100% of the 2016 base salary
 + PPSP value when granted for 2016

Target remuneration¹ in 2016

Base salary in 2016
 + annual bonus for 2016 (50% paid out in 2017 + 50% in 2018)
 + PPSP payment for 2016 (in 2020) incl. dividend equivalent payments

Total remuneration¹ in 2016

The possible cap on the amount exceeding the maximum limit takes place with the payment of the PPSP for 2016 in 2020.

¹ Excluding fringe benefits and retirement benefit commitments in all cases.

B.47

Base salary – fixed [🔗 page 143](#)

base salary – fixed – oriented towards the area of responsibility

base salary (non-performance-related) paid out in twelve monthly installments	approx. 29%
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B.48**Annual bonus – short- and medium-term performance-related remuneration**  page 144

short- and medium-term performance-related components

approx. 29%



annual bonus 2016 = target bonus x overall target achievement

target bonus = 100% of base salary 2016	target achievement EBIT +/- target achievement "individual targets" +/- target achievement "non-financial targets" - non-achievement "compliance targets" overall target achievement
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time of payment of annual bonus 2016

50% of annual bonus = in March of the year after the reporting year (2017)

50% of annual bonus (deferral) = in March of the second year after the reporting year (2018)

amount paid out = 50% of annual bonus x "relative share performance"¹

1 Depending on the development of the Daimler share price compared with the Dow Jones STOXX Auto Index.

B.49**Annual bonus in 2016**

dependent upon

EBIT target achievement – 50% relates to a comparison of actual EBIT in 2016 with EBIT targeted for 2016
Range of possible target achievement: 0% – 200%
– 50% relates to a comparison of actual EBIT in 2016 with actual EBIT in 2015

Target achievement: "individual targets" Individual target agreements in 2016
Range of possible target achievement: -25% – +25%

Target achievement: "non-financial targets" For 2016: Further development and permanent establishment of the corporate value of integrity, as well as diversity and the maintenance and enhancement of a high level of employee satisfaction and product quality.
Range of possible target achievement: -10% – +10%

Non-achievement: "compliance targets" Compliance agreements in 2016
Range of possible target achievement: -25% – 0%

Maximum target achievement (total cap): **235% of the target bonus**

The **annual bonus** is a variable remuneration, the level of which is primarily linked to the operating profit of the Daimler Group (EBIT). For the past financial year, the annual bonus was also linked to the target for the financial year determined by the Supervisory Board (derived from the level of return targeted for the medium term and the growth targets), the actual result compared with the prior year, the individual performance of the Board of Management members and the non-achievement of compliance targets. In addition, qualitative targets are defined and included. With the actual-actual comparison, achievement of EBIT at the prior year level constitutes target achievement of 100%. With the target-actual comparison, the particularly ambitious definition of the targeted EBIT that is oriented towards the competition constitutes target achievement of 150%. [↗ B.48](#) [↗ B.49](#)

Primary reference parameters:

- 50% relates to a comparison of actual EBIT in 2016 with EBIT targeted for 2016.
- 50% relates to a comparison of actual EBIT in 2016 with actual EBIT in 2015.

Amount with 100% target achievement (target annual bonus):

In 2016, this is equivalent to the respective base salary.

Range of possible target achievement:

0 to 200%, that is, the annual bonus due to EBIT achievement has an upper limit of double the base salary and may also be zero. Both primary reference parameters, each of which relates to half of the annual bonus, can vary between 0% and 200%. For the primary reference parameter relating to half of the annual bonus, "comparison of actual EBIT in the financial year with the EBIT targeted for the financial year," the limits of the unchanged possible range of 0 to 200% are defined as a deviation of +/- 3% of the prior-year revenue.

For the other primary reference parameter, which also relates to half of the annual bonus, "comparison of actual EBIT in the financial year with actual EBIT in the prior year," the limits of the unchanged possible range of 0 to 200% are defined as a deviation of +/- 2% of the prior-year revenue.

The Supervisory Board may take account of the personal performance of the individual Board of Management members with an addition or deduction of up to 25% on the basis of the agreed individual targets, with the degree of target achievement calculated from the primary reference parameters. In addition, an amount of up to 10 percent can be added or deducted, depending on the key figures/assessment basis determined in advance. Non-financial targets are used as a basis for assessment of the latter component. For the past financial year, those targets were the further development and permanent establishment of the corporate value of integrity, as well as diversity and the maintenance and enhancement of a high level of employee satisfaction and product quality.

Once again in 2016, further qualitative targets were agreed upon with the individual members of the Board of Management with regard to sustained functioning of the compliance management system. The complete or partial non-achievement of individual compliance targets can be reflected by a deduction of up to 25% from the individual target achievement. However, the compliance targets cannot result in any increase in individual target achievement, even in the case of full accomplishment.

The total amount to be paid out from the annual bonus is limited to 2.35 times the base salary of the respective financial year.

B.50**Performance Phantom Share Plan (PPSP)**
– long-term performance-related remuneration [page 145](#)

long-term performance-related remuneration approx. 42%



amount when granted in euros [page 145](#) = **preliminary number of phantom shares (virtual shares)** \times **price of Daimler shares when issued** = **preliminary number of phantom shares (virtual shares)** \times **three-year dividend entitlement**

after expiry of third plan year
preliminary number of phantom shares \times performance factor
= **final number of phantom shares**, dividend entitlement in fourth year

after expiry of fourth plan year
final number of phantom shares \times Daimler share price at end of plan
= **amount paid out**

Time of payment of Performance Phantom Share Plan 2016 in February of the year 2020

B.51**PPSP 2016**

dependent upon

Development of performance factors

– 50% relates to the “return on sales” achieved in a three-year comparison with the defined group of competitors

[page 146](#)
Bandwidth of possible target achievement: 0% – 200%¹

– 50% relates to the “relative share performance,” i.e. the development of Daimler’s share price in a three-year comparison with the development of a share-price index for the defined group of competitors.

Bandwidth of possible target achievement: 0% – 200%

Development of the Daimler share price

Price when issued and price at the end of the plan period

Bandwidth of possible price development: maximum of 2.5 times the issue price

Maximum performance development (total cap):

2.5 times the amount granted (including dividend equivalent payments throughout the plan period)

Stock ownership guidelines

Share purchase obligation of up to 25% of the gross remuneration until the defined number of shares (between 20,000 and 75,000) have been purchased (shares to be held until the end of term of service)

¹ Maximum of 195% if, in the event of target achievement of 195% – 200%, the strategic return target of 9% has not been reached.

The **Performance Phantom Share Plan (PPSP)** is a variable element of remuneration with long-term incentive effects. At the beginning of the plan, the Supervisory Board specifies a grant value (absolute amount in euros) in the context of setting the individual annual target remuneration. This amount is divided by the relevant average price of Daimler shares calculated over a predefined long period of time, which results in the preliminary number of phantom shares allocated. Also at the beginning of the plan, performance targets are set for a period of three years (performance period). Depending on the achievement of these performance targets with a possible range of 0% to 200%, after three years, the phantom shares allocated at the beginning of the plan are converted into the final number of phantom shares allocated.

After another plan year has elapsed, the amount to be paid out is calculated from this final number of phantom shares and the applicable share price at that time. The share price relevant to the payout under this plan is also relevant to allocating the preliminary number of phantom shares for the plan newly issued in the respective year.

[B.50](#) [B.51](#)

Reference parameters for Plan 2016:

- 50% relates to the Group's return on sales in a three-year comparison with a group of competitors comprising all listed vehicle manufacturers with an automotive proportion of more than 70% by revenue and an investment-grade credit rating (BMW, Ford, Fuji Heavy, Honda, Hyundai, Isuzu, Mazda, Nissan, Paccar, Suzuki, Toyota, Volvo and Volkswagen). For the measurement of this success criterion, the competitors' average return on sales is calculated over a period of three years. Target achievement occurs to the extent to which Daimler's return on sales deviates by a maximum of +/- 2 percentage points from 105% of the calculated average of the competitors.
 - Target achievement of 100% only occurs when the average return on sales of the Daimler Group reaches 105% of the average return on sales of the group of competitors. Target achievement of 200% occurs if Daimler's return on sales exceeds 105% of the average of the competitors by 2 percentage points or more. An additional limitation was implemented starting with PPSP 2015: If a target achievement of between 195% and 200% occurs in the third year of the performance period, the maximum target achievement calculated from the reference parameter of return on sales compared to the reference group will only be deemed to be 200% if the actual return on sales for Daimler's automotive business reaches at least the strategic target for return on sales (currently 9%). Otherwise, target achievement will be limited to 195%.
 - Target achievement of 0% occurs if Daimler's return on sales is 2 percentage points or more lower. In the deviation range of +/- 2 percentage points, target achievement varies in proportion to the deviation.
- 50% relates to "relative share performance," i.e. the development of Daimler's share price in a three-year comparison with the development of a share-price index for the defined group of competitors. If the development of Daimler's share price (in percent) is the same as that of the index (in percent), target achievement is deemed to be 100%. If the development of Daimler's share price (in percent) is 50 percentage points or more below (above) the development of the index, target achievement is deemed to be 0% (200%). In the deviation range of +/- 50 percentage points, target achievement varies in proportion to the deviation.

Value upon allocation:

Determined annually by the Supervisory Board; for 2016, approximately 1.3 to 1.5 times the base salary.

Range of possible target achievement:

0 to 200%, that is, the plan has an upper limit. It may also be zero.

Value of the phantom shares on payout:

During the four-year period between the allocation of the preliminary phantom shares and the payout of the plan proceeds, the phantom shares earn a dividend equivalent in the amount of the actual dividend paid on ordinary Daimler shares.

The value of the phantom shares to be paid out depends on target achievement measured according to the criteria described above and on the share price relevant to the payout. This share price is limited to 2.5 times the share price at the beginning of the plan. In addition, the amount to be paid out is limited to 2.5 times the absolute euro amount specified at the beginning of the plan, which is relevant to the preliminary number of phantom shares allocated. This maximum amount includes the dividend equivalent paid out during the four-year plan period.

Guidelines for share ownership

As a supplement to these three components of remuneration, "Stock Ownership Guidelines" exist for the Board of Management. These guidelines require the members of the Board of Management to invest a portion of their private assets in Daimler shares over several years and to hold those shares until the end of their Board of Management membership. The number of shares to be held is set between 20,000 and 75,000. In fulfillment of the guidelines, up to 25% of the gross remuneration out of each Performance Phantom Share Plan is generally to be used to acquire ordinary shares in the Company, but the required shares can also be acquired in other ways.

Appropriateness of Board of Management remuneration

In accordance with Section 87 of the German Stock Corporation Act (AktG), the Supervisory Board of Daimler AG once again had an assessment of the system of Board of Management remuneration carried out by an independent remuneration expert in 2016. The result was that the remuneration system as described above was confirmed as being in conformance with the requirements of applicable law. The remuneration system was approved as described by the Annual Shareholders' Meeting in 2014 with an approval ratio of 96.8%.

Board of Management remuneration in the financial year 2016**Board of Management remuneration in 2016 pursuant to Section 314 Subsection 1 No. 6 of the German Commercial Code (HGB)**

The total remuneration granted by Group companies (excluding retirement benefit commitments) to the members of the Board of Management of Daimler AG is calculated as the total of the amounts of

- the base salary in 2016,
- the half of the annual bonus for 2016 payable in 2017 and measured as of the end of the reporting period,
- the half of the medium-term share-based component of the annual bonus for 2016 payable in 2018 with its value at the end of the reporting period (entitlement depending on the development of Daimler's share price compared with the Dow Jones STOXX Auto Index),
- the value of the long-term share-based remuneration (PPSP) at the time when granted in 2016, and
- the taxable non-cash benefits in 2016.

For both of the share-based components – the second 50% of the annual bonus and the PPSP with a long-term orientation – the amounts actually paid out can deviate significantly from the values described depending on the development of the Daimler share price and on the achievement of the relevant target parameters. Upward deviation is possible only as far as the maximum limits described above. Both components can also be zero.

The remuneration of the Board of Management for the financial year 2016 amounts to €31.8 million (2015: €38.8 million). Of that total, €10.0 million was fixed, that is, non-performance-related remuneration (2015: €9.1 million), €11.6 million (2015: €17.4 million) was short-term and medium-term variable performance-related remuneration (annual bonus with deferral), and €10.2 million was variable performance-related remuneration granted in the financial year 2016 with a long-term incentive effect (2015: €12.3 million). [↗ B.52](#)

The granting of non-cash benefits in kind, primarily the reimbursement of expenses for security precautions and the provision of company cars, resulted in taxable benefits for the members of the Board of Management in 2016 as shown in table [↗ B.53](#).

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Board of Management remuneration in 2016

		Base salary	Short and medium-term variable remuneration (annual bonus)		Long-term variable remuneration (PPSP)		Total
			Short-term	Medium-term	Number	Value when granted (2016: at share price €62.94) (2015: at share price €83.35)	
In thousands of euros							
Dr. Dieter Zetsche	2016	2,008	1,516	1,516	40,838	2,570	7,610
	2015	2,008	2,289	2,289	37,092	3,092	9,678
Dr. Wolfgang Bernhard	2016	824	622	622	18,236	1,148	3,216
	2015	824	939	939	16,564	1,381	4,083
Dr. Christine Hohmann-Dennhardt	2016	-	-	-	-	-	-
	2015	781	851	851	14,837	1,237	3,720
Renata Jungo Brüngger	2016	781	590	590	16,336	1,028	2,989
	2015	-	-	-	-	-	-
Ola Källenius	2016	781	590	590	16,336	1,028	2,989
	2015	781	890	890	14,837	1,237	3,798
Wilfried Porth	2016	781	590	590	17,078	1,075	3,036
	2015	781	890	890	15,512	1,293	3,854
Hubertus Troska	2016	781	590	590	16,336	1,028	2,989
	2015	781	890	890	14,837	1,237	3,798
Bodo Uebber	2016	928	701	701	19,528	1,229	3,559
	2015	928	1,058	1,058	17,737	1,478	4,522
Prof. Dr. Thomas Weber	2016	781	590	590	17,345	1,092	3,053
	2015	781	890	890	15,754	1,313	3,874
Total	2016	7,665	5,789	5,789	162,033	10,198	29,441
	2015	7,665	8,697	8,697	147,170	12,268	37,327

B.53

Taxable non-cash benefits and other fringe benefits

	2016	2015
In thousands of euros		
Dr. Dieter Zetsche ¹	618	148
Dr. Wolfgang Bernhard	131	90
Dr. Christine Hohmann-Dennhardt	-	97
Renata Jungo Brüngger	107	-
Ola Källenius	393	189
Wilfried Porth	171	107
Hubertus Troska ²	635	493
Bodo Uebber	163	188
Prof. Dr. Thomas Weber	129	127
Total	2,347	1,439

1 Including an anniversary bonus of €418,464. (That entire amount was donated to non-profit organizations.)

2 For the fulfillment of disclosure obligations pursuant to Section 285 No. 9a of the German Commercial Code (HGB), this amount is reduced by €208,136 for the year 2016 (2015: €170,820). The corresponding fringe benefits were granted and borne by a subsidiary and are thus not included in the amounts to be disclosed in the annual financial statements of the parent company, Daimler AG.

Commitments upon termination of service

Retirement provision

In 2012, Daimler introduced a new company retirement benefit plan for new entrants and new appointments for employees paid according to collective bargaining wage tariffs as well as for executives: the "Daimler Pensions Plan." This retirement benefit system features the payment of annual contributions by Daimler, but is oriented toward the capital market. Daimler makes a commitment to guarantee the total of contributions paid, which are invested in the capital market according to a precautionary investment concept.

The Supervisory Board of Daimler AG has approved the application of this system for all members of the Board of Management newly appointed since 2012. The amount of the annual contributions results from a fixed percentage of the base salary and the total annual bonus for the respective financial year calculated as of the balance sheet date. This percentage is 15%. This calculation takes into consideration the targeted level of retirement provision for each Board of Management member – also according to the period of membership – and the resulting annual and long-term expense for the Company. The contributions to retirement provision are granted until the age of 62. The benefit from the pension plan is payable to surviving Board of Management members at the earliest at the age of 62, irrespective of their age upon retirement. If a member of the Board of Management retires due to disability, the benefit is paid as a disability pension, irrespective of his or her age upon retirement.

The Pension Capital system was used from the beginning of 2006 until the end of 2011. The pension agreements of active Board of Management members that were valid up until that time were modified accordingly. All Board of Management members newly appointed during that period were subject exclusively to the Pension Capital system.

Under this system, each Board of Management member is credited with a capital component each year. This capital component comprises an amount equal to 15% of the sum of the Board of Management member's fixed base salary and the total annual bonus for the respective financial year on the balance sheet date, multiplied by an age factor equivalent to a rate of return of 6% until 2015 and 5% as of 2016 (Wolfgang Bernhard and Wilfried Porth: 5% for all years). These contributions to pension plans are granted only until the age of 60. The benefit from the pension plan is payable to surviving Board of Management members at the earliest at the age of 60, irrespective of their age upon retirement. If a member of the Board of Management retires due to disability, the benefit is paid as a disability pension, even before the age of 60.

Payments under the Pension Capital system and the Daimler Pensions Plan can be made in three ways:

- as a single amount;
- in twelve annual installments, whereby interest accrues on each partial amount from the time payments commence until the payout is complete (Pension Capital 6% or 5%; Daimler Pensions Plan in accordance with applicable law);
- as an annuity with annual increases (Pension Capital 3.5% or in accordance with applicable law; Daimler Pensions Plan in accordance with applicable law).

The contracts specify that if a Board of Management member passes away before retiring for reason of age, the spouse / registered partner or dependent children is/are entitled to the full committed amount in the case of the Pension Capital system, and to the credit amount reached plus an imputed amount until the age of 62 in the case of the Daimler Pensions Plan. If a Board of Management member passes away after retiring for reason of age, in the case of payment of twelve annual installments, the heirs are entitled to the remaining present value. In the case of a pension with benefits for surviving dependents, the spouse/registered partner or dependent children is/are entitled to 60% of the discounted terminal value (Pension Capital), or the spouse/registered partner is entitled to 60% of the actual pension (Daimler Pensions Plan).

Up until the end of 2005, the pension agreements of Board of Management members included a commitment to an annual retirement pension, calculated as a proportion of the former base salary and depending on the number of years of service; an analogous implementation of this commitment for the corresponding hierarchical level applied to Wilfried Porth for the period prior to his serving as a member of the Board of Management. Such pension claims remained in effect after the conversion to the Pension Capital system but were frozen at the level reached at the beginning of 2006.

Payments of these retirement pensions start upon request when the term of service ends at or after the age of 60, or are paid as disability pensions if the term of service ends before the age of 60 due to disability. The respective agreements provide for 3.5% annual increases starting when benefits are received (with the exception that Wilfried Porth's benefits are adjusted in accordance with applicable law). The agreements include a provision by which a spouse of a deceased Board of Management member is entitled to 60% of that member's pension. That amount can increase by up to 30 percentage points depending on the number of dependent children.

Departing Board of Management members with pension agreements modified as of the beginning of 2006 receive, for the period between the end of the last contract period and reaching the age of 60, payments in the amounts of the pension commitments granted as described in the previous section. Departing Board of Management members are also provided with a company car, in some cases for a defined period. These payments are made until the age of 60, possibly reduced due to other sources of income, and are subject to the annual percentage increases described above in the explanation of these pension agreements.

Service costs for pension obligations according to IFRS amounted to €2.8 million in the financial year 2016 (2015: €3.5 million). The present value of the total defined benefit obligation according to IFRS amounted to €95.7 million as of December 31, 2016 (December 31, 2015: €80.1 million). Taking age and period of service into account, the individual entitlements, service costs and present values are shown in the table.

➤ B.54

Commitments upon early termination of service

In the case of early termination without an important reason, Board of Management service contracts include commitments to payment of the base salary and provision of a company car until the end of the original service period at a maximum. Such persons are only entitled to payment of the annual bonus pro rata for the period until the end of the contract of service or of the Board of Management membership takes effect. Entitlement to payment of the performance-related component of remuneration with a long-term incentive effect that has already been allocated is defined by the conditions of the respective plans. To the extent that the payments described above are subject to the provisions of the so-called severance cap of the German Corporate Governance Code, their total including fringe benefits is limited to double the annual remuneration and may not exceed the total remuneration for the remaining period of the service contract.

Sideline activities of Board of Management members

The members of the Board of Management should accept management board or supervisory board positions and/or any other administrative or honorary functions outside the Group only to a limited extent. Furthermore, they require the consent of the Supervisory Board before commencing any sideline activities. This ensures that neither the time required nor the remuneration paid for such activities leads to any conflict with the members' duties to the Group. Insofar as such sideline activities are memberships of other statutory supervisory boards or comparable boards of business enterprises, they are disclosed in the notes to the annual financial statements of Daimler AG, which is published on our website. In general, Board of Management members have no right to separate remuneration for board positions held at other companies of the Group.

Loans to members of the Board of Management

In 2016, no advances or loans were made to members of the Board of Management of Daimler AG.

Payments made to former members of the Board of Management of Daimler AG and their survivors

Payments made in 2016 to former members of the Board of Management of Daimler AG and their survivors amounted to €15.6 million (2015: €15.5 million). Pension provisions according to IFRS for former members of the Board of Management and their survivors amounted to €252.9 million as of December 31, 2016 (2015: €235.2 million).

B.54

Individual entitlements, service costs and present values for members of the Board of Management

		Annual pension (as regulated until 2005) as of age 60	Service cost (for pension, pension capital and Daimler Pensions Plan)	Present value ¹ of obligations (for pension, pension capital and Daimler Pensions Plan)
In thousands of euros				
Dr. Dieter Zetsche	2016	1,050	708	43,533
	2015	1,050	1,044	37,925
Dr. Wolfgang Bernhard	2016	-	367	3,230
	2015	-	448	2,491
Renata Jungo Brünnger	2016	-	117	654
	2015	-	-	-
Ola Källenius	2016	-	235	2,345
	2015	-	117	1,690
Wilfried Porth	2016	156	247	9,597
	2015	156	281	8,070
Hubertus Troska	2016	-	239	4,611
	2015	-	342	3,159
Bodo Uebber	2016	275	649	17,007
	2015	275	834	14,538
Prof. Dr. Thomas Weber	2016	300	264	14,716
	2015	300	419	12,178
Total	2016	1,781	2,826	95,693
	2015	1,781	3,485	80,051

¹ The amounts of the present values are primarily due to the low level of the relevant discount rate. Dr. Hohmann-Dennhardt has no entitlement to a company retirement benefit.

Details of Board of Management remuneration in 2016 pursuant to the requirements of the German Corporate Governance Code

The following tables show for each individual member of the Board of Management on the one hand the benefits granted for the financial year and on the other hand the payments made in or for the reporting year and the retirement pension expense in or for the year under review in accordance with the recommendations of Clause 4.2.5 paragraph 3 of the German Corporate Governance Code.

The total of “benefits granted” for financial year 2015 is calculated from

- the base salary in 2015,
- the taxable non-cash benefits and other fringe benefits in 2015,
- the half of the annual bonus payable in 2016 for 2015 at the value for target achievement of 100%,
- the half of the share-based annual bonus payable in 2017 for 2015 at the value for target achievement of 100%,

B.55

Benefits granted

	Dr. Dieter Zetsche Chairman of the Board of Management, Head of Mercedes-Benz Cars				Dr. Wolfgang Bernhard Daimler Trucks & Buses			
	Jan. 1 – Dec. 31, 2015	2016	Jan. 1 – Dec. 31, min.	Jan. 1 – Dec. 31, max.	Jan. 1 – Dec. 31, 2015	2016	Jan. 1 – Dec. 31, min.	Jan. 1 – Dec. 31, max.
In thousands of euros								
Base salary	2,008	2,008	2,008	2,008	824	824	824	824
Taxable non-cash benefits and other fringe benefits	148	618	618	618	90	131	131	131
Total	2,156	2,626	2,626	2,626	914	955	955	955
Annual variable remuneration (50% of annual bonus, short-term)	1,004	1,004	0	2,360	412	412	0	968
Deferral (50% of annual bonus, medium-term)	1,004	1,004	0	2,360	412	412	0	968
Long-term variable remuneration (plan period of 4 years)	3,092	2,570	0	6,875	1,381	1,148	0	3,070
Total	5,100	4,578	0	11,595	2,205	1,972	0	5,006
Retirement pension expense (service costs)	1,044	708	708	708	448	367	367	367
Total remuneration	8,300	7,912	3,334	14,929	3,567	3,294	1,322	6,328
Total limit ¹ for components of remuneration granted in the reporting year	10,149			10,149	5,464			5,464
Excluding								
– Taxable non-cash benefits and other fringe benefits								
– Retirement pension expense (service costs)								

	Dr. Christine Hohmann-Dennhardt Integrity & Legal Affairs		Renata Jungo Brüngger Integrity & Legal Affairs		Ola Källenius Mercedes-Benz Cars Marketing & Sales				
	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2015	2016	Jan. 1 – Dec. 31, min.	Jan. 1 – Dec. 31, max.	Jan. 1 – Dec. 31, 2015	2016	Jan. 1 – Dec. 31, min.	Jan. 1 – Dec. 31, max.
In thousands of euros									
Base salary	781	–	781	781	781	781	781	781	781
Taxable non-cash benefits and other fringe benefits	97	–	107	107	107	189	393	393	393
Total	878	–	888	888	888	970	1,174	1,174	1,174
Annual variable remuneration (50% of annual bonus, short-term)	391	–	391	0	919	391	391	0	919
Deferral (50% of annual bonus, medium-term)	391	–	391	0	919	391	391	0	919
Long-term variable remuneration (plan period of 4 years)	1,237	–	1,028	0	2,750	1,237	1,028	0	2,750
Total	2,019	–	1,810	0	4,588	2,019	1,810	0	4,588
Retirement pension expense (service costs)	–	–	117	117	117	117	235	235	235
Total remuneration	2,897	–	2,815	1,005	5,593	3,106	3,219	1,409	5,997
Total limit ¹ for components of remuneration granted in the reporting year	5,058	–			5,058	5,058			5,058
Excluding									
– Taxable non-cash benefits and other fringe benefits									
– Retirement pension expense (service costs)									

¹ Total limit = maximum amount 1.5 times (Dr. Zetsche)/1.9 times target remuneration (base salary, target annual bonus, value when granted of PPSP, excluding fringe benefits and retirement pension commitments).

- the value of the long-term share-based remuneration (PPSP) at the time when granted in 2015 (payable in 2019), and
- the retirement pension expense in 2015 (service costs in 2015).

The total of "benefits granted" for financial year 2016 is calculated from

- the base salary in 2016,
- the taxable non-cash benefits and other fringe benefits in 2016,

- the half of the annual bonus payable in 2017 for 2016 at the value for target achievement of 100%,
- the half of the share-based annual bonus payable in 2018 for 2016 at the value for target achievement of 100%,
- the value when granted in 2016 (payable in 2020) of the long-term share-based remuneration (PPSP), and
- the retirement pension expense in 2016 (service costs in 2016).

Benefits granted

	Wilfried Porth HR and Labor Relations Director, IT & Mercedes-Benz Vans				Hubertus Troska Greater China			
	Jan. 1 - Dec. 31, 2015	2016	Jan. 1 - Dec. 31, min.	max.	Jan. 1 - Dec. 31, 2015	2016	Jan. 1 - Dec. 31, min.	max.
In thousands of euros								
Base salary	781	781	781	781	781	781	781	781
Taxable non-cash benefits and other fringe benefits	107	171	171	171	493	635	635	635
Total	888	952	952	952	1,274	1,416	1,416	1,416
Annual variable remuneration (50% of annual bonus, short-term)	391	391	0	919	391	391	0	919
Deferral (50% of annual bonus, medium-term)	391	391	0	919	391	391	0	919
Long-term variable remuneration (plan period of 4 years)	1,293	1,075	0	2,875	1,237	1,028	0	2,750
Total	2,075	1,857	0	4,713	2,019	1,810	0	4,588
Retirement pension expense (service costs)	281	247	247	247	342	239	239	239
Total remuneration	3,244	3,056	1,199	5,912	3,635	3,465	1,655	6,243
Total limit ¹ for components of remuneration granted in the reporting year	5,153			5,153	5,058			5,058
Excluding								
- Taxable non-cash benefits and other fringe benefits								
- Retirement pension expense (service costs)								
In thousands of euros								
Bodo Uebber Finance & Controlling, Daimler Financial Services								
Prof. Dr. Thomas Weber Group Research & Mercedes-Benz Cars Development								
	Jan. 1 - Dec. 31, 2015	2016	Jan. 1 - Dec. 31, min.	max.	Jan. 1 - Dec. 31, 2015	2016	Jan. 1 - Dec. 31, min.	max.
Base salary	928	928	928	928	781	781	781	781
Taxable non-cash benefits and other fringe benefits	188	163	163	163	127	129	129	129
Total	1,116	1,091	1,091	1,091	908	910	910	910
Annual variable remuneration (50% of annual bonus, short-term)	464	464	0	1,090	391	391	0	919
Deferral (50% of annual bonus, medium-term)	464	464	0	1,090	391	391	0	919
Long-term variable remuneration (plan period of 4 years)	1,478	1,229	0	3,288	1,313	1,092	0	2,920
Total	2,406	2,157	0	5,468	2,095	1,874	0	4,758
Retirement pension expense (service costs)	834	649	649	649	419	264	264	264
Total remuneration	4,356	3,897	1,740	7,208	3,422	3,048	1,174	5,932
Total limit ¹ for components of remuneration granted in the reporting year	6,025			6,025	5,187			5,187
Excluding								
- Taxable non-cash benefits and other fringe benefits								
- Retirement pension expense (service costs)								

¹ Total limit = maximum amount → 1.5 times (Dr. Zetsche)/1.9 times target remuneration (base salary, target annual bonus, value when granted of PPSP, excluding fringe benefits and retirement pension commitments).

The total of “payments made” for financial year 2015 is calculated from:

- the base salary in 2015,
- the taxable non-cash benefits and other fringe benefits in 2015,
- the half of the annual bonus payable in 2016 for 2015 at the value as of the end of the reporting period in financial year 2015,
- the half of the share-based annual bonus paid in 2015 for 2013 (deferral),
- the value of the long-term share-based remuneration (PPSP 2011) paid in 2015,

- the dividend equivalent of the current PPSP (2012, 2013, 2014 and 2015) paid in 2015, and
- the retirement pension expense in 2015 (service costs in 2015).

The caps possible to ensure the total maximum amount shown in the table of benefits granted in the financial year 2015 are implemented with the payout of PPSP 2015, which constitutes the last payment to be made of the components of remuneration granted in the financial year 2015. For the financial year 2015, therefore, the possible cap would take place in 2019, the year that PPSP 2015 is paid out.

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Payments made

	Dr. Dieter Zetsche Chairman of the Board of Management, Head of Mercedes-Benz Cars		Dr. Wolfgang Bernhard Daimler Trucks & Buses	
	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016
In thousands of euros				
Base salary	2,008	2,008	824	824
Taxable non-cash benefits and other fringe benefits	148	618	90	131
Total	2,156	2,626	914	955
Annual variable remuneration (50% of annual bonus, short-term)	2,289	1,516	939	622
Deferral (50% of annual bonus, medium-term)	1,809	1,727	626	670
Long-term variable remuneration				
Payment of PPSP 2011	6,416	–	2,566	–
Payment of PPSP 2012	–	6,417	–	2,567
Dividend equivalent PPSP 2012	304	–	122	–
Dividend equivalent PPSP 2013	156	395	62	158
Dividend equivalent PPSP 2014	106	141	45	60
Dividend equivalent PPSP 2015	91	121	41	54
Dividend equivalent PPSP 2016	–	133	–	59
Total	11,171	10,450	4,401	4,190
Retirement pension expense (service costs)	1,044	708	448	367
Total remuneration	14,371	13,784	5,763	5,512

	Dr. Christine Hohmann-Dennhardt Integrity & Legal Affairs		Renata Jungo Brüngger Integrity & Legal Affairs		Ola Källenius Mercedes-Benz Cars Marketing & Sales	
	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016
In thousands of euros						
Base salary	781	–	781	–	781	781
Taxable non-cash benefits and other fringe benefits	97	–	107	–	189	393
Total	878	–	888	–	970	1,174
Annual variable remuneration (50% of annual bonus, short-term)	851	–	590	–	890	590
Deferral (50% of annual bonus, medium-term)	626	–	–	–	–	–
Long-term variable remuneration						
Payment of PPSP 2011	2,246	–	–	–	268	–
Payment of PPSP 2012	–	–	320	–	–	411
Dividend equivalent PPSP 2012	122	–	–	–	15	–
Dividend equivalent PPSP 2013	62	–	22	–	8	21
Dividend equivalent PPSP 2014	43	–	8	–	12	15
Dividend equivalent PPSP 2015	36	–	7	–	36	48
Dividend equivalent PPSP 2016	–	–	53	–	–	53
Total	3,986	–	1,000	–	1,229	1,138
Retirement pension expense (service costs)	–	–	117	–	117	235
Total remuneration	4,864	–	2,005	–	2,316	2,547

The total of "payments made" for financial year 2016 is calculated from:

- the base salary in 2016,
- the taxable non-cash benefits and other fringe benefits in 2016,
- the half of the annual bonus payable in 2017 for 2016 at the value as of the end of the reporting period,
- the half of the share-based annual bonus paid in 2016 for 2014 (deferral),
- the amount of the long-term share-based remuneration (PPSP 2012) paid in 2016,

- the dividend equivalent of the current PPSP (2013, 2014, 2015 and 2016) paid in 2016, and
 - the retirement pension expense in 2016 (service costs in 2016).
- The caps possible to ensure the total maximum amount shown in the table of benefits granted in the year 2016 are implemented with the payout of PPSP 2016, which constitutes the last payment to be made of the components of remuneration granted in the financial year 2016. For the financial year 2016, therefore, the possible cap would take place in 2020, the year that PPSP 2016 is paid out.

Payments made

	Wilfried Porth HR and Labor Relations Director, IT & Mercedes-Benz Vans		Hubertus Troska Greater China	
	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016
In thousands of euros				
Base salary	781	781	781	781
Taxable non-cash benefits and other fringe benefits	107	171	493	635
Total	888	952	1,274	1,416
Annual variable remuneration (50% of annual bonus, short-term)	890	590	890	590
Deferral (50% of annual bonus, medium-term)	645	652	626	652
Long-term variable remuneration				
Payment of PPSP 2011	2,566	–	1,050	–
Payment of PPSP 2012	–	2,567	–	1,369
Dividend equivalent PPSP 2012	122	–	50	–
Dividend equivalent PPSP 2013	62	158	62	158
Dividend equivalent PPSP 2014	44	59	43	56
Dividend equivalent PPSP 2015	38	50	36	48
Dividend equivalent PPSP 2016	–	56	–	53
Total	4,367	4,132	2,757	2,926
Retirement pension expense (service costs)	281	247	342	239
Total remuneration	5,536	5,331	4,373	4,581

	Bodo Uebber Finance & Controlling, Daimler Financial Services		Prof. Dr. Thomas Weber Group Research & Mercedes-Benz Cars Development	
	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2016
In thousands of euros				
Base salary	928	928	781	781
Taxable non-cash benefits and other fringe benefits	188	163	127	129
Total	1,116	1,091	908	910
Annual variable remuneration (50% of annual bonus, short-term)	1,058	701	890	590
Deferral (50% of annual bonus, medium-term)	781	775	664	652
Long-term variable remuneration				
Payment of PPSP 2011	3,068	–	2,725	–
Payment of PPSP 2012	–	3,068	–	2,725
Dividend equivalent PPSP 2012	146	–	129	–
Dividend equivalent PPSP 2013	75	189	66	168
Dividend equivalent PPSP 2014	51	67	45	60
Dividend equivalent PPSP 2015	43	58	39	51
Dividend equivalent PPSP 2016	–	63	–	56
Total	5,222	4,921	4,558	4,302
Retirement pension expense (service costs)	834	649	419	264
Total remuneration	7,172	6,661	5,885	5,476

Remuneration of the Supervisory Board

Supervisory Board remuneration in 2016

The remuneration of the Supervisory Board is determined by the Shareholders' Meeting of Daimler AG and is governed by the Company's Articles of Incorporation. The new regulations for Supervisory Board remuneration approved by the Annual Shareholders' Meeting in April 2014 and effective for the financial year beginning on January 1, 2014 specify that the members of the Supervisory Board receive, in addition to the refund of their expenses and the cost of any value-added tax incurred by them in performance of their office, fixed remuneration of €120,000 after the conclusion of the financial year. The Chairman of the Supervisory Board receives an additional €240,000 and the Deputy Chairman of the Supervisory Board receives an additional €120,000. The members of the Audit Committee are paid an additional €60,000, the members of the Presidential Committee are paid an additional €48,000 and the members of the other committees of the Supervisory Board are paid an additional €24,000; an exception is the Chairman of the Audit Committee, who is paid an additional €120,000. Additional payments are made for activities in a maximum of three committees; any persons who are members of more than three such committees receive additional payments for the three most highly paid functions. Members of a Supervisory Board committee are only entitled to remuneration for such membership if the committee has actually convened to fulfill its duties in the respective year.

The members of the Supervisory Board and its committees receive a meeting fee of €1,100 for each Supervisory Board meeting and committee meeting that they attend.

The individual remuneration of the members of the Supervisory Board is shown in table. [↗ B.57](#)

In financial year 2016, no remuneration was paid for services provided personally beyond the aforementioned board and committee activities, in particular for advisory or agency services, except for the remuneration paid to the members of the Supervisory Board representing the employees in accordance with their contracts of employment.

The remuneration of all the activities of the members of the Supervisory Board of Daimler AG in the year 2016 was thus €3.5 million (2015: €3.5 million).

Loans to members of the Supervisory Board

No advances or loans were made to members of the Supervisory Board of Daimler AG in 2016.

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Supervisory Board remuneration

Name	Function(s) remunerated	Total in 2016
In euros		
Dr. Manfred Bischoff	Chairman of the Supervisory Board, the Presidential Committee and the Nomination Committee	448,500
Michael Brecht ¹	Deputy Chairman of the Supervisory Board, the Presidential Committee and the Audit Committee	370,000
Dr. Paul Achleitner	Member of the Supervisory Board and the Nomination Committee	153,900
Sari Baldauf	Member of the Supervisory Board and the Nomination Committee	153,900
Michael Bettag ¹	Member of the Supervisory Board	128,800
Dr. Clemens Börsig	Member of the Supervisory Board and the Audit Committee (Chairman of the Audit Committee)	255,400
Dr. Bernd Bohr	Member of the Supervisory Board	128,800
Dr. Jürgen Hambrecht	Member of the Supervisory Board and of the Presidential Committee	183,400
Petraea Heynike	Member of the Supervisory Board	128,800
Andrea Jung	Member of the Supervisory Board	127,700
Joe Kaeser	Member of the Supervisory Board and the Audit Committee	193,200
Ergun Lümali ¹	Member of the Supervisory Board and the Audit Committee (since July 1, 2016)	161,164
Dr. Sabine Maaßen ¹	Member of the Supervisory Board and the Audit Committee (each until June 30, 2016)	97,208
Wolfgang Nieke ¹	Member of the Supervisory Board	128,800
Dr. Bernd Pischetsrieder	Member of the Supervisory Board	127,700
Valter Sanches ²	Member of the Supervisory Board	127,700
Jörg Spies ¹	Member of the Supervisory Board	127,700
Elke Tönjes-Werner ¹	Member of the Supervisory Board	128,800
Sibylle Wankel ¹	Member of the Supervisory Board (since August 25, 2016)	44,495
Dr. Frank Weber	Member of the Supervisory Board	128,800
Roman Zitzelsberger ¹	Member of the Supervisory Board and of the Presidential Committee	183,400

¹ The employee representatives have stated that their board remuneration is to be transferred to the Hans-Böckler Foundation, in accordance with the guidelines of the German Trade Union Federation.

² Mr. Sanches has directed that he receive no remuneration and that his board remuneration is to be paid to the Hans-Böckler Foundation.

Takeover-Relevant Information and Explanation

(Report pursuant to Section 315 Subsection 4 and Section 289 Subsection 4 of the German Commercial Code (HGB))

Composition of share capital

The share capital of Daimler AG amounted to approximately €3,070 million as of December 31, 2016. It is divided into 1,069,837,447 registered shares, each of which accounts for approximately €2.87 of equity capital. Pursuant to Section 67 Subsection 2 of the German Stock Corporation Act (AktG), only those persons registered as shareholders in the register of shareholders are considered to be shareholders of the Company. With the exception of treasury shares, from which the Company does not have any rights, all shares confer equal rights to their holders. Each share confers the right to one vote and, with the possible exception of any new shares that are not yet entitled to a dividend, to an equal share of the profits in accordance with the dividend payout approved by the Annual Shareholders' Meeting. The rights and obligations arising from the shares are derived from the provisions of applicable law, in particular Sections 12, 53 aff., 118 ff. and 186 of the German Stock Corporation Act. There were no treasury shares as of December 31, 2016.

Restrictions on voting rights and on the transfer of shares

The Company does not have any rights from treasury shares. In the cases described in Section 136 of the German Stock Corporation Act (AktG), the voting rights of treasury shares are nullified by law.

Shares acquired by employees within the context of the employee share program may not be disposed of until the end of the following year. Eligible participants in the Performance Phantom Share Plans are obliged by the Plans' terms and conditions and by the Stock Ownership Guidelines to acquire Daimler shares with a part of their Plan income up to a defined target volume and to hold them for the duration of their employment at the Daimler Group.

Provisions of applicable law and of the Articles of Incorporation concerning the appointment and dismissal of members of the Board of Management and amendments to the Articles of Incorporation

Members of the Board of Management are appointed and dismissed on the basis of Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Codetermination Act (MitbestG). In accordance with Section 84 of the German Stock Corporation Act, the members of the Board of Management are appointed by the Supervisory Board for a maximum period of office of five years. However, the Supervisory Board of Daimler AG has decided generally to limit the initial appointment of members of the Board of Management to three years. Reappointment or the extension of a period of office is permissible, in each case for a maximum of five years.

Pursuant to Section 31 Subsection 2 of the German Codetermination Act (MitbestG), the Supervisory Board appoints the members of the Board of Management with a majority comprising at least two thirds of its members' votes. If no such majority is obtained, the Mediation Committee of the Supervisory Board has to make a suggestion for the appointment within one month of the vote by the Supervisory Board. The Supervisory Board then appoints the members of the Board of Management with a majority of its members' votes. If no such majority is obtained, voting is repeated and the Chairperson of the Supervisory Board then has two votes. The same procedure applies for dismissals of members of the Board of Management.

In accordance with Article 5 of the Articles of Incorporation, the Board of Management has at least two members. The number of members is decided by the Supervisory Board. Pursuant to Section 84 Subsection 2 of the German Stock Corporation Act (AktG), the Supervisory Board can appoint a member of the Board of Management as its Chairperson. If a required member of the Board of Management is lacking, an affected party can apply in urgent cases for that member to be appointed by the court pursuant to Section 85 Subsection 1 of the German Stock Corporation Act (AktG). Pursuant to Section 84 Subsection 3 of the German Stock Corporation Act (AktG), the Supervisory Board can revoke the appointment of a member of the Board of Management and of the Chairperson of the Board of Management if there is an important reason to do so.

Pursuant to Section 179 of the German Stock Corporation Act (AktG), the Articles of Incorporation can only be amended by a resolution of an Annual Shareholders' Meeting. Unless otherwise required by applicable law, resolutions of the Annual Shareholders' Meeting – with the exception of elections – are passed pursuant to Section 133 of the German Stock Corporation Act (AktG) and Article 16 Subsection 1 of the Articles of Incorporation with a simple majority of the votes cast and if required with a simple majority of the share capital represented. Pursuant to Section 179 Subsection 2 of the German Stock Corporation Act (AktG), any amendment to the purpose of the Company requires a 75% majority of the share capital represented at the Shareholders' Meeting; no use is made in the Articles of Incorporation of the possibility to stipulate a larger majority of the share capital. Amendments to the Articles of Incorporation that only affect the wording can be decided upon by the Supervisory Board in accordance with Article 7 Subsection 2 of the Articles of Incorporation. Pursuant to Section 181 Subsection 3 of the German Stock Corporation Act (AktG), amendments to the Articles of Incorporation take effect upon being entered in the Commercial Register.

Authorization of the Board of Management to issue or buy back shares

By resolution of the Annual Shareholders' Meeting of April 1, 2015, the Company was authorized to acquire its own shares during the period until March 31, 2020, for all legal purposes in a volume of up to 10% of the share capital at the time of the resolution of the Annual Shareholders' Meeting. The shares can be used, under the exclusion of shareholders' subscription rights, for, among other things, corporate mergers and acquisitions or else can be sold for cash to third parties at a price that is not significantly below the market price at the time of the sale. The shares can also be used to service debt on convertible bonds and/or bonds with warrants, or else issued to employees of the Company and employees and members of executive bodies of affiliated companies pursuant to Section 15 ff. of the German Stock Corporation Act (AktG). The Company's own shares can also be canceled.

In addition, the Board of Management is authorized under other defined circumstances and with the consent of the Supervisory Board to exclude shareholders' subscription rights for shares they acquire. The Company's own shares in a volume of up to 5% of the share capital existing at the time of the resolution of the Annual Shareholders' Meeting can also be acquired with the application of derivative financial instruments (put or call options, forwards or a combination of these financial instruments), whereby the terms of the derivatives may not exceed 18 months and must be terminated on March 31, 2020, at the latest.

No use was made of this authorization to acquire the Company's own shares during the reporting period.

By resolution of the Annual Shareholders' Meeting held on April 9, 2014, the Board of Management was authorized with the consent of the Supervisory Board to increase the share capital of Daimler AG in the period until April 8, 2019, wholly or in partial amounts, on one or several occasions, by up to €1 billion by issuing new registered shares of no par value in exchange for cash or non-cash contributions, and with the consent of the Supervisory Board under certain conditions and within defined limits to exclude shareholders' subscription rights (Approved Capital 2014). Subscription rights can, under these defined conditions, be excluded in the event of a capital increase through non-cash contributions for the purposes of an acquisition, and in the case of a capital increase through cash contributions, if the issue price of new shares is not significantly below the market price at the time of the issue.

No use has yet been made of Approved Capital 2014.

By resolution of the Annual Shareholders' Meeting held on April 1, 2015, the Board of Management, with the consent of the Supervisory Board, is authorized to issue during the period until March 31, 2020, convertible bonds and/or bonds with warrants or a combination of those instruments (commercial papers) in a total nominal amount of up to €10 billion with a maximum term of ten years, and to grant the owners/lenders of those bonds conversion or option rights to new, registered shares of no par value in Daimler AG with a corresponding amount of the share capital of up to €500 million, in accordance with the terms and conditions of those convertible bonds or bonds with warrants. The bonds may be issued in exchange for consideration in cash, but also for consideration in kind, in particular for a participation in other companies. The respective terms and conditions may also provide for mandatory conversion or an obligation to exercise the option rights. The bonds can be issued once or several times, wholly or in installments, or simultaneously in various tranches. They can also be issued by companies affiliated with Daimler AG pursuant to Section 15 ff. of the German Stock Corporation Act (AktG).

Inter alia, the Board of Management was also authorized under certain circumstances, within certain limits and with the consent of the Supervisory Board, to exclude shareholders' subscription rights to the bonds. Subscription rights can, under these defined conditions, be excluded when bonds are issued in exchange for non-cash contributions, particularly within the framework of a merger or acquisition, and when bonds are issued in exchange for cash contributions, if the issue price is not significantly below the theoretical market price of the bonds at the time of the issue. No use has yet been made of this new authorization to issue convertible bonds and/or bonds with warrants.

In order to service the debt of the convertible bonds and/or bonds with warrants issued as a result of the authorization, the Annual Shareholders' Meeting of April 1, 2015, also approved a conditional increase in the share capital of up to €500 million (Conditional Capital 2015).

Material agreements taking effect in the event of a change of control

Daimler AG has concluded various material agreements, as listed below, that include clauses regulating the possible event of a change of control, as can occur as a result of a takeover bid:

- A non-utilized syndicated credit line for a total amount of €9 billion, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
 - Credit agreements with lenders for a total amount of €2.4 billion, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
 - Guarantees and securities for credit agreements of consolidated subsidiaries for a total amount of €146 million, which the lenders are entitled to terminate if Daimler AG becomes a subsidiary of another company or comes under the control of one person or several persons acting jointly.
 - An agreement concerning the acquisition of a majority (50.1%) of AFCC Automotive Fuel Cell Cooperation Corp., which has the purpose of further developing fuel cells for automotive applications and making them marketable. In the case of a change of control of Daimler AG, the agreement provides for the right of termination by the other main shareholder, Ford Motor Company. Control as defined by this agreement is the beneficial ownership of the majority of the voting rights and the resulting right to appoint the majority of the members of the Board of Management.
 - A cooperation agreement with Ford concerning the joint pre-development of a fuel-cell system. In the event of a change of control of one of the parties to the agreement, the agreement provides for the right of termination for the other parties. A change of control is deemed to occur at a threshold of 50% of the voting rights of the company in question or upon authorization to appoint a majority of the members of its managing board.
 - A master cooperation agreement on wide-ranging strategic cooperation with Renault S.A., Renault-Nissan B.V. and Nissan Motor Co., Ltd. In the case of a change of control of one of the parties to the agreement, each of the other parties has the right to terminate the agreement. A change of control as defined by the master cooperation agreement occurs if a third party or several third parties acting jointly acquire, legally or economically, directly or indirectly, at least 50% of the voting rights in the company in question or are authorized to appoint a majority of the members of its managing board. Under the master cooperation agreement, several cooperation agreements were concluded between Daimler AG on the one side and Renault and/or Nissan on the other, which provide for the right of termination for a party to the agreement in the case of a change of control of another party.
- These agreements primarily concern a new architecture for small cars, the shared use and development of fuel-efficient diesel and gasoline engines and transmissions, the development and supply of a small urban delivery van, the development, production and supply of pickups, the use of an existing architecture for compact cars, the joint development of components for a new architecture for compact cars, and the joint production of Infiniti/Nissan and Mercedes-Benz compact vehicles in a 50-50 joint venture in Mexico. A change of control is deemed to occur at a threshold of 50% of the voting rights of the company in question or upon authorization to appoint a majority of the members of its managing board. In the case of termination of cooperation in the area of the development of small cars due to a change of control in the early phase of the cooperation, the party affected by the change of control would be obliged to bear its share of the costs of the development of shared components even if the development were terminated for that party.
- An agreement with BAIC Motor Co., Ltd., related to a jointly held company for the production and distribution of cars of the Mercedes-Benz brand in China, by which BAIC Motor Co., Ltd. is given the right to terminate the agreement or exercise a put or call option in the case that a third party acquires one third or more of the voting rights in Daimler AG.
 - An agreement related to the establishment of a joint venture with Beiqi Foton Motor Co., Ltd. for the purpose of producing and distributing heavy-duty and medium-duty trucks of the Auman brand. This agreement gives Beiqi Foton Motor Co., Ltd. the right of termination in the case that one of its competitors acquires more than 25% of the equity or assets of Daimler AG or becomes able to influence the decisions of its Board of Management.
 - An agreement between Daimler and Robert Bosch GmbH related to the joint establishment and joint operation of EM-motive GmbH for the development and production of traction and transmission-integrated electric motors as well as parts and components for such motors for automotive applications and for the sale of those articles to the Robert Bosch Group and the Daimler Group. If Daimler should become controlled by a competitor of Robert Bosch GmbH, Robert Bosch GmbH has the right to terminate the consortium agreement without prior notice and to acquire all the shares in the joint venture held by Daimler at a fair market price.
 - An agreement between Daimler AG, BMW AG and Audi AG related to the acquisition of the companies of the HERE Group and the associated establishment of There Holding B.V. In the event of a change of control of one of the parties to the agreement, the agreement obligates the party in question to offer its shares in There Holding B.V. to the other parties to the agreement (shareholders). If none of the other parties acquire these shares, the agreement gives them the right to dissolve There Holding B.V.

Risk and Opportunity Report

The Daimler Group is exposed to a large number of risks that are directly linked with the business activities of its divisions or which result from external influences. A risk is understood as the danger that events, developments or actions will prevent the Group or one of its divisions from achieving its targets. At the same time, it is important for the Daimler Group to identify opportunities so that they can be utilized in the course of its business activities, thus safeguarding and enhancing the Group's competitiveness. An opportunity is understood as the possibility to safeguard or to surpass the planned targets of the Group or a division as a result of events, developments or actions. The divisions have direct responsibility for recognizing and managing business risks and opportunities at an early stage. As part of the strategy process, risks related to the planned long-term development and opportunities for further profitable growth are identified and integrated into the decision-making process. In order to identify risks and opportunities at an early stage and to assess and manage them consequently, effective management and control systems, which are clustered into a risk and opportunity management system, are applied. Risks and opportunities are not offset. The system is described below.

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Assessment of probability of occurrence / possible impact

Level	Probability of occurrence
Low	0% < Probability of occurrence ≤ 33%
Medium	33% < Probability of occurrence ≤ 66%
High	66% < Probability of occurrence < 100%

Level	Possible impact
Low	€0 < Impact < €500 million
Medium	€500 million ≤ Impact < €1 billion
High	Impact ≥ €1 billion

Risk and opportunity management system

The **risk management system** with regard to existence-threatening and other material risks is integrated into the value-based management and planning system of the Daimler Group. It is an integral part of the overall planning, management and reporting process in the legal entities, divisions and corporate functions. The risk management system is intended to systematically and continually identify, assess, control, monitor and report risks threatening Daimler's existence and other material risks, in order to support the achievement of corporate targets and to enhance risk awareness at the Group.

The **opportunity management system** at the Daimler Group is derived from the risk management system. The objective of opportunity management is to recognize the possible opportunities arising in business activities as a result of positive developments at an early stage, and to utilize them as optimally as possible for the Group by taking appropriate measures. By taking advantage of opportunities, planned targets should be secured or overachieved. Opportunity management considers relevant and implementable opportunities that have not yet been included in any planning.

In the context of operative planning, risks and opportunities – with consideration of appropriate risk and opportunity categories – are identified and assessed for a two-year planning period. Furthermore, the discussions for the derivation of mid-term and strategic targets in the context of strategic planning include the identification and assessment of risks and opportunities relating to a longer period. The reporting of risks and opportunities in the Management Report generally relates to a period of one year. Besides the reporting at specific times, risk and opportunity management is established as a continuous task within the Group. In addition to the regular reporting, there is also an internal reporting obligation within the Group for material risks arising unexpectedly. The central Group Risk Management regularly reports the identified risks and opportunities to the Board of Management and the Supervisory Board.

Risk assessment takes place on the basis of probability of occurrence and possible impact according to the levels low, medium and high. These levels also apply to the possible impact of opportunities. An analysis of the probability of occurrence is not considered here. When assessing the impact of a risk, its effect on EBIT is basically considered.

At the Daimler Group, risks below €500 million are classified as low, between €500 million and €1 billion as medium, and above €1 billion as high. For the quantification of each risk and opportunity category in the Management Report, the individual risks and opportunities are summarized for each category.

The assessment of the dimensions probability of occurrence and possible impact is based on the levels shown in table [7 B.58](#) and is conducted before measures are implemented. In the context of describing the risk and opportunity categories, significant changes in comparison to the prior year are explained.

Risk management is based on the principle of completeness. This means that at the level of the individual entities, all concrete risks enter the risk management process. General uncertainties without any clear indication of a possible effect on earnings are monitored by the internal control system (ICS).

The scope of consolidation for risk and opportunity management corresponds to the scope of consolidation of the consolidated financial statements and goes beyond that if necessary. The risks and opportunities of the divisions and operating units, important associated companies, joint ventures, joint operations and the corporate departments are included.

The tasks of the employees responsible for risk and opportunity management include, besides the identification and assessment of risks and opportunities, the development of measures and the initiation of such measures, if necessary. The objective of such measures is to avoid, reduce or transfer risks. The utilization or enhancement of an opportunity, and its partial or full implementation, also require measures to be taken. The cost-effectiveness of a measure is assessed before its implementation. The development of all risks and opportunities of the individual entities and of the related measures that have been initiated are continually monitored. The management activities take place at the level of the divisions based on individual risks and opportunities.

The **internal control and risk management system with regard to the accounting process** has the objective of ensuring the correctness and effectiveness of accounting and financial reporting. It is designed in line with the internationally recognized framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Internal Control – Integrated Framework), is continually developed further, and is an integral part of the accounting and financial reporting process in all relevant legal entities and corporate functions. The system includes principles and procedures as well as preventive and detective controls. Among other things, it is regularly checked, if

- the Group’s uniform financial reporting, valuation and accounting guidelines are continually updated and regularly taught and adhered to;
- transactions within the Group are accounted for and properly eliminated;
- issues relevant for financial reporting and disclosure from agreements entered into are recognized and appropriately presented;
- processes are established to guarantee the completeness of financial reporting;
- processes are established for the segregation of duties and for the “four-eyes principle” (dual accountability) in the context of preparing financial statements, and authorization and access rules exist for relevant IT accounting systems.

The effectiveness of the internal control system is systematically assessed with regard to the corporate accounting process. The first step consists of risk analysis and the definition of control. Significant risks are identified relating to the process of corporate accounting and financial reporting in the main legal entities and corporate functions. The controls required are then defined and documented in accordance with Group-wide guidelines. Random samples are regularly tested to assess the effectiveness of the controls. Those tests constitute the basis for self-assessment of the appropriate magnitude and effectiveness of the controls. The results of this self-assessment are documented and reported in a groupwide IT system. Identified weaknesses are eliminated with consideration of their potential effects. At the end of the annual cycle, the selected legal entities and corporate functions confirm the effectiveness of the internal control and risk management system with regard to the corporate accounting process. The Board of Management and the Audit Committee of the Supervisory Board are regularly informed about the main control weaknesses and the effectiveness of the control mechanisms installed. However, the internal control and risk management system for the accounting process cannot ensure with absolute certainty that material false statements in accounting are avoided.

The **organizational embedding and monitoring of risk and opportunity management** takes place through the risk management organization established at the Group. The divisions, corporate functions and legal entities are requested to report about concrete risks and opportunities at regular intervals. This information is passed on to Group Risk Management, which processes the information and provides it to the Board of Management and the Supervisory Board as well as to the Group Risk Management Committee (GRMC).

In order to ensure the complete presentation and assessment of existence-threatening and other material risks of the Group, as well as the control and risk processes with regard to the corporate accounting process, Daimler has established the GRMC. It is composed of representatives of Accounting & Financial Reporting, the Legal department and Group Compliance, and is chaired by the Board of Management Member for Finance & Controlling / Daimler Financial Services. The internal auditing department contributes material findings on the internal control and risk management system.

In addition to dealing with fundamental and material issues related to the design of the risk management, the committee has the following tasks:

- The GRMC is responsible for the creation and design of the framework conditions relating to the organization, methods, processes and systems for a functional, Group-wide risk management at Daimler AG and its subsidiaries.
- The GRMC regularly reviews the effectiveness and functionality of the installed risk management processes, including the necessary adaptations. This includes reviewing the appropriateness of the organization, methods, processes and systems. The GRMC specifies minimum requirements relating to the design of risk management, gives instructions for necessary and appropriate corrective measures to eliminate possibly identified system failings or weaknesses, and monitors their implementation. The general objective is to ensure efficient and effective risk management that facilitates the early identification of material risks and enables management to recognize developments at an early stage and to control them by taking suitable measures.

Responsibility for operational risk management and for the risk management processes lies directly with the divisions, corporate functions and legal entities.

Reports regarding the current risk situation and the effectiveness, functionality and appropriateness of the internal control and risk management system are regularly presented to the Board of Management and to the Audit Committee of the Supervisory Board of Daimler AG. Furthermore, the responsible managers regularly discuss risks and opportunities out of business operations with the Board of Management.

The Audit Committee of the Supervisory Board is responsible for **monitoring the internal control and risk management system**. The internal auditing department monitors whether the statutory conditions and the Group's internal guidelines concerning the internal control and risk management system of the Group are adhered to. If required, measures are then initiated in cooperation with the respective management. External auditors audit the system for the early identification of risks which is integrated in the risk management system for its general suitability to identify risks threatening the existence of the Group; in addition, they report to the Supervisory Board on any significant weaknesses that have been recognized in the internal control and risk management system.

Risks and opportunities

The following section describes the risks and opportunities that can have a significant influence on the profitability, cash flows and financial position of the Daimler Group. In general, the reporting of risks and opportunities takes place in relation to the individual segments. If no segment is explicitly mentioned, the risks and opportunities described relate to all the automotive divisions.

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

Industry and business risks and opportunities

The following section describes the industry and business risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table [7 B.59](#).

Economic risks and opportunities

Economic risks and opportunities constitute the framework for the risks and opportunities listed in the following categories and are integrated as premises into the quantification of these risks and opportunities. Overall economic conditions have a significant influence on automobile sales markets. Their development is included among the Group's major risks and opportunities.

Like the majority of economic research institutes, Daimler expects the **world economy** to remain within its rather below-average growth corridor of 2.5 to 3.0% also in 2017. Economic developments in 2016 are described in detail in the "Economic Conditions and Business Development" section of this Management Report; growth assumptions for 2017 are explained in the "Outlook" section [pages 97 ff and 174 ff](#).

Economic risks and opportunities are linked with assumptions and forecasts concerning the **general development** of individual issues. Overall, economic risks and above all the degree of uncertainty for the business environment have tended to increase compared with the previous year.

The ongoing growth dynamism of the **US economy** will be determined, among other factors, by which of the measures announced during the election campaign are actually implemented by the new US President Donald Trump. In the year 2017, the possibility exists of faster growth for the US economy as a result of tax reductions and higher infrastructure investment. In the short term, however, risks will increase if trade restrictions are imposed (renegotiation of the NAFTA-agreement with Canada and Mexico and punitive tariffs on imports from China). For Daimler, altered trade conditions in particular affecting Mexico would have a considerable impact on existing production interdependencies and supply chains. And the US labor market, which has so far benefited greatly from immigration, could also suffer from a change in immigration policy. Higher import duties and barriers to trade would also increase inflationary pressure in the United States. This would reduce consumer spending power and would result in faster increases in benchmark interest rates by the US Federal Reserve (Fed). In this connection, it is unclear how the economy would react after such a long phase of extremely low interest rates. Excessively fast increases in interest rates by the US Fed would have a significantly negative impact on the US economy. Rising interest on loans could slow down the recovery of the real-estate market and dampen companies' investments. Although the Fed could attempt to counteract significantly weakening growth through its monetary policy, it would have little scope for action in this field, so the effectiveness of such possible measures would be limited. A possible renewed wave of expansive measures would also further increase the danger of speculative bubbles. Such a development would have significant consequences because the Daimler Group (especially the Mercedes-Benz Cars, Daimler Trucks and Daimler Financial Services divisions) generates a considerable volume of its revenue in the United States and diminished growth could also spread to other regions. However, if the aforementioned tax cuts and infrastructure spending mean that investment activity turns out to be significantly more dynamic than previously assumed, this could result in substantially stronger growth. The resulting increased employment and income effects could boost demand for all the automotive divisions.

If there is no continuation of the required consolidation of state budgets and of reform efforts in the countries of the **European Monetary Union** (EMU), this could cause renewed turmoil in the financial markets, leading to increasing refinancing costs through rising capital-market interest rates and thus jeopardizing the still only moderate economic recovery. Furthermore, the exceptionally low rate of inflation harbors an additional risk in that a long-lasting and broad-based fall in prices would constitute a considerable threat to the economic recovery of the EMU and make it even more difficult for the debt-ridden countries of the euro zone to finance their debts. Furthermore, there is concern that the very expansive monetary policy of the European Central Bank could further increase the danger of speculative bubbles in the stock and bond markets. Although the agreement reached between Greece and its creditors in the summer of 2015 reduced the direct risk of Greece's exit from the euro zone, that risk is by no means completely removed.

A return to that discussion could lead to renewed uncertainty and volatility in the financial markets. The risks associated with the United Kingdom's exit from the European Union have been manifested. Although the negative effects on the economies of the UK and the rest of the EU were limited after the referendum, substantial risks exist in connection with the upcoming exit negotiations, whereby most of the risk relates to the UK. The possible burden on the British economy would be immense if the British government does not succeed in securing access to the European single market after Brexit. If other countries follow the example of the United Kingdom and aim to carry out referendums, the resulting investor and consumer uncertainty could additionally impact the economic prospects of the EU. Developments in Italy and Spain continue to be a source of political and economic uncertainty within the European Monetary Union. In particular in Italy, the rejection of constitutional reforms means that the risk has increased of a new government more averse to reform and a return to the sovereign-debt crisis. The European market continues to be very important for Daimler across all divisions; in fact, it is still the biggest sales market for the Mercedes-Benz Cars and Mercedes-Benz Vans divisions. An opportunity that is difficult to assess can be seen in a significantly improved economic development of the euro zone. If countries such as Italy and France implement reform measures more quickly and decisively than has so far been assumed, economic growth could also accelerate. That would benefit the development of investment and demand for motor vehicles in the important European market.

A regionally limited opportunity exists in the possibility of a distinct acceleration of economic growth in **Japan**. This could be caused by a significant increase in investment activity, resulting from the targeted structural reforms and the expansive monetary and fiscal policies that have already been initiated. However, the failure of the country's expansive monetary and fiscal policy and the lack of structural reforms could trigger a significant growth slowdown or recession. As a result, there could be positive or negative effects on the Mercedes-Benz Cars and Daimler Trucks divisions, for which Japan is an important sales market.

Due to China's enormous importance as a growth driver for the world economy in recent years, a downturn in **China's economy** would represent a considerable risk to the world economy. The stock-market slumps in the summer of 2015 and at the beginning of 2016 and the volatile development of the real-estate sector along with falling exports and increasing capital outflows are indicators of structural weaknesses. The looser fiscal and monetary policy of recent months has resulted in some short-term stability, but it must be assumed that the stimulating impact will subside in the course of the year. If the growth slowdown then expected turns out to be more pronounced than assumed, the world economy would cool off significantly. Another factor is the significant risk inherent in the enormous growth in debt that has been observed since the global financial crisis, especially in the corporate sector. If the growth slowdown results in an excessive increase in credit defaults, this could lead to turbulence in the banking sector and the financial markets. China is now a key sales market for the Mercedes-Benz Cars and Mercedes-Benz Vans divisions in particular, which means that any disruptions caused by the aforementioned risks could result in lower-than-planned growth in unit sales. In addition, a drop in demand in China would further exacerbate the fall in the price of oil and other (industrial) raw materials, with extremely disadvantageous effects for raw-material exporting countries worldwide, especially in Latin America, the Middle East and Sub-Saharan Africa. This would have a massive negative impact on demand for the automotive divisions in those regions. On the other hand, a further opportunity is seen in an even stronger development of the Chinese economy. This could be triggered by the expansive monetary and fiscal policies taking rapid effect, accompanied by a significant increase in consumption. Strong growth in overall economic consumption would create additional opportunities for the aforementioned divisions.

Another risk is to be seen in a renewed weakening of growth in the **emerging markets**. There have been disappointing developments in recent years, especially in major economies such as Russia and Brazil, although other countries such as Indonesia and Turkey have also developed below their potential. A combination of weak growth and high interest-rates increases the risk of a rising number of defaults in those countries, especially in view of the substantial expansion of credit in some cases over the past few years. A further drop in the price of raw materials along with upcoming interest-rate increases in the United States could lead to renewed substantial capital outflows, especially in raw-material exporting emerging countries. This would worsen financing conditions above all in the emerging markets, which are very dependent on foreign capital due to their high current-account deficits and have high rates of foreign debt. Financial-market turbulence going as far as currency crises would be possible consequences and could have a massive impact on the economies of the affected countries. Additional enormous political risks exist in Turkey as a result of the attempted coup in mid-2016; this is significant in particular due to the country's great dependence on the inflow of foreign capital. As Daimler is already very active in these countries, or their markets play a strategic role, this would have significantly negative effects on the Group's prospective

unit sales. An opportunity is to be seen in the significant implementation of reforms in important emerging economies. If structural reforms are quickly and consistently carried out in countries such as India or Indonesia, new scope for growth will be created. Capital flows into emerging markets already increased in 2016 after two years of decline; a renewed period of macroeconomic stability in combination with rising raw-material prices and more stable currencies could stimulate global growth. This would also benefit export-dependent countries in the euro zone. Rising global demand would then boost raw-material prices and provide significant relief for raw-material exporters in Latin America, the Middle East and Africa.

Further risks exist from political tension such as the **conflict between Russia and Ukraine**, the conflict in **Syria**, and **Turkey**. Should further **terrorist attacks** or assassinations in Europe or other major economies lead to a high degree of uncertainty, investment and consumer confidence could be severely undermined with a resulting impact on the real economy. In addition, state spending for such purposes as coping with the refugee crisis and security actions could lead to rising fiscal deficits in Europe. However, the suspension of the sanctions imposed on Iran represents an opportunity. The resumption of economic relations and an enormous need to catch up after the end of the sanctions offer great growth potential in which the divisions Mercedes-Benz Cars and above all Daimler Trucks can participate.

On the **global financial markets**, after a long phase of very expansive monetary policy, there could be significant market corrections and phases of extreme volatility, for example if market expectations with regard to central bank activities in the United States or Europe are not fulfilled. Such developments could impact the worldwide investment climate and have a negative effect on the global economy. Furthermore, tension relating to currency exchange rates could lead to an increase in **protectionist measures** and a kind of "devaluation race".

The increasing wave of political populism also brings the risk that more and more economies will turn away from free trade and globalization. In this political climate, it will be difficult to ratify new trade agreements. There is even an increased risk of renewed protectionary measures.

General market risks and opportunities

The risks and opportunities for the economic development of automotive markets are strongly affected by the cyclical situation of the global economy as described above. The assessment of **market risks and opportunities** is associated with assumptions and forecasts about the overall development of markets in the regions in which the Daimler Group is active. The possibility of markets developing better or worse than assumed in the planning, or of changing market conditions, generally exists for all divisions of the Daimler Group.

Potential effects of the risks on the development of the Daimler Group's unit sales are included in risk scenarios. The risks can cause changes in the planned business activities and the related unit sales, inventories and aftersales business. In particular, the partially unstable macroeconomic environment as well as political or economic uncertainty could be causes in this context. Differences between the divisions exist due to a varying regional focus of their activities. The development of markets, unit sales and inventories is continually analyzed and monitored by the divisions; if necessary, specific marketing and sales programs are implemented. Clear strategies have been formulated for each division in order to ensure profitable growth and efficient progress.

Existing uncertainties with regard to market developments can also mean that the overall market or regional conditions for the automotive industry might develop better than assumed in the internal forecasts and premises upon which the Group's target planning is based. This can lead to **market opportunities**. Opportunities can also arise from an improvement in the competitive situation or a positive development of demand for the divisions. However, the existing market opportunities of the divisions of the Daimler Group can only be utilized if production can be focused accordingly and if this is enabled by regional conditions. In addition, any gaps between demand and supply have to be recognized and covered in good time. The measures that could be initiated by the Daimler Group to utilize potential opportunities include a combination of local sales and marketing activities as well as central strategic product and capacity planning.

Due to the partly difficult financial situation of some **dealerships and vehicle importers**, supporting actions might become necessary to ensure the capability of such business partners. The sources of these risks lie in the respective risk environment. Supporting actions would negatively effect the profitability, cash flows and financial position of the automotive segments. Further risks may result from the dependency on certain dealerships. Possibly, relationships with new partners may have to be developed. The financial situation of strategically relevant dealerships and vehicle importers is continually monitored. Risks of this kind exist for dealerships and vehicle importers of the divisions Mercedes-Benz Cars, Daimler Trucks and Mercedes-Benz Vans divisions.

The successful product portfolio of the Daimler Group contributes to the advantageous positioning compared to the competitors. A possible increase in **competition and price pressure** would also generally affect all the automotive segments. Thereby aggressive pricing policies, the introduction of new products by competitors, or price pressure related to the aftersales business could make it impossible to achieve the targeted prices. This might result in lower revenue, the failure to achieve the products' planned profitability, or lower market share. The extent of such risks is related to the amount of a division's sales volume. Depending on the specification, product-specific and possibly regional measures are taken to support weaker markets. They include the use of new sales channels, actions designed to strengthen brand awareness and brand loyalty, and sales and marketing campaigns. These measures can also be applied to safeguard business in the area of aftersales. Daimler also operates various programs to boost sales. These programs use financial incentives for customers. Corresponding measures taken to support the segments' unit sales could adversely affect the projected revenue. Continuous monitoring of competitors is carried out in order to recognize such risks at an early stage.

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Industry and business risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
General market risks	Medium	High	General market opportunities	High
Risks relating to leasing and sales financing	Low	Low	Opportunities relating to leasing and sales financing	Low
Procurement market risks	Low	High	Procurement market opportunities	Medium
Risks relating to the legal and political framework	Medium	High	Opportunities relating to the legal and political framework	Low

Further risks and opportunities at Mercedes-Benz Cars and Daimler Trucks relate to volatilities in the **development of used vehicle markets** and thus to the residual values of the vehicles produced. 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. Depending on the region and the current market situation, the measures taken generally include continuous market monitoring as well as, if required, price-setting strategies or sales promotion measures designed to regulate vehicle inventories. The quality of market forecasts is verified by periodic comparisons of internal and external sources, and the determination of residual values is advanced as necessary with regard to methods, processes and systems.

In addition, a residual-value risk from non-Daimler vehicles exists for Daimler Financial Services due to the acquisition of the Athlon Group effective December 1, 2016, because most of those vehicles, comprising 40 different brands, are not covered by manufacturers' residual-value guarantees. Residual-value risk is taken into account through a high level of diversification with regard to brands, regions, customers and lease periods. Used-vehicle prices are continually monitored both locally and centrally, so that the residual-value risk from a drop in market prices can be forecast in good time and suitable countermeasures may be initiated.

As the target achievement of the Daimler Financial Services division is closely connected with the development of business in the automotive divisions, the existing **volume risks and opportunities** are also reflected in the Daimler Financial Services segment. In this context, Daimler Financial Services contributes towards marketing expenses, especially for advertising campaigns in the media.

The assessment of general market risks and opportunities across all segments is unchanged compared with the previous year.

Risks and opportunities relating to the leasing and sales-financing business

In connection with the sale of vehicles, Daimler also offers its customers a wide range of financing possibilities – primarily of leasing and financing the Group's products. The resulting risks for the Daimler Financial Services segment are mainly due to borrowers' worsening creditworthiness, so that receivables might not be recoverable in whole or in part due to customers' insolvency (**default risk or credit risk**). Daimler counteracts credit risks by means of creditworthiness checks on the basis of standardized scoring and rating methods and the collateralization of receivables, as well as a effective risk management with a firm focus on monitoring both internal and macroeconomic leading indicators. Other risks associated with the leasing and sales-financing business involve the possibility of increased refinancing costs due to changes in interest rates (**interest-rate risk**). An adjustment of credit conditions for

customers in the leasing and sales-financing business due to higher refinancing costs could reduce the new business and contract volume of Daimler Financial Services, also reducing the unit sales of the automotive divisions. Risks and opportunities also arise from a lack of matching maturities with refinancing. The **risk of mismatching maturities** is minimized by coordinating the refinancing with the periods of financing agreements, from the perspective of interest rates as well as liquidity. Any remaining risks from changes in interest rates are managed by the use of derivative financial instruments. Further information on credit risks and the Group's risk-minimizing actions is provided in [Note 32](#) of the Notes to the Consolidated Financial Statements. With regard to the leasing business, the automotive divisions also have a **residual-value risk** resulting from the risks associated with the development of used-vehicle markets. The extent of the risks and opportunities and the probability of occurrence of the risks relating to the leasing and sales-financing business continue to be assessed as low.

Procurement market risks and opportunities

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 problems of suppliers, capacity bottlenecks caused by supplier delivery failures as well as risks of insufficient utilization of production capacities at suppliers. In general, the possible impact of risks related to the procurement market continues to be assessed as "high". The risk situation relating to probability of occurrence and possible impact has not changed compared with the previous year. Opportunities in the raw-material markets have increased compared with the previous year because prices of relevant raw materials develop better than expected.

Raw-material prices continued to feature significant volatility in 2016. Due to almost completely unchanged macroeconomic conditions, price fluctuations are expected with uncertain and uneven trends in the near future. On the one hand, raw-material markets can be impacted by political crises and uncertainties – combined with possible supply bottlenecks – as well as by volatile demand for specific raw materials; this increases the risk from raw-material prices for the individual automotive segments. On the other hand, the automotive segments' procurement operations profit from both the significantly lower dynamism of Chinese industry and from renewed anticipation of slightly below-average growth of the world economy. Generally, the ability to pass on the higher costs of commodities and other materials in the form of higher prices for their manufactured vehicles is limited because of strong competitive pressure in the international automotive markets. A drastic increase in raw-material prices would at least temporarily result in a considerable reduction in economic growth.

Supplier risk management aims to identify potential **financial difficulties for suppliers** at an early stage and to initiate suitable countermeasures. Even though the crisis of recent years is over, the situation of some of suppliers remains difficult due to tough competitive pressure. This has necessitated individual or joint support actions by vehicle manufacturers to safeguard their production and sales. In the context of supplier risk management, regular reporting dates are set for suppliers for which we have received early warning signals and made corresponding internal assessments. On those dates, the suppliers report key performance indicators to Daimler and decisions are made concerning any required support actions.

In case of a further decrease in unit sales in major emerging markets, the Daimler Trucks division in particular is faced with the risk that Daimler will require a significantly lower volume of components from suppliers than originally planned. This would result in **underutilization of production capacities** for the suppliers. If their fixed costs were no longer covered, there would be the risk that suppliers could demand compensation payments.

Risks and opportunities related to the legal and political framework

The automotive industry is subject to extensive governmental regulation worldwide. Risks and opportunities from the legal and political framework have a considerable impact on Daimler's future business success. Regulations concerning vehicles' **emissions, fuel consumption and certification** 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 portion of the research and development budget to ensure fulfillment of these regulations. Despite the difficult environment, the assessment of risks and opportunities related to the legal and political framework remains "medium" for the probability of occurrence and "high" regarding the potential impact.

Many countries have already implemented stricter **regulations to reduce vehicles' emissions and fuel consumption**, or are currently doing so. They relate for example to the environmental impact of vehicles, including emission levels, fuel economy and noise, as well as the pollutants generated by the plants where the automobiles are produced. Noncompliance with regulations applicable in the various regions could result in significant penalties and reputational harm or the inability to sell 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.

The **Mercedes-Benz Cars** segment faces risks in particular with respect to regulations on average fleet fuel consumption in the Chinese market. Regulations concerning the CO₂ emissions of new cars are challenging also in the European Union. In addition, the planned replacement of the NEDC (New European Driving Cycle) with the WLTP (Worldwide Harmonized Light Vehicles Test Procedure) is creating uncertainty, because based on current knowledge, the effects of converting from WLTP to NEDC figures to check the NEDC fleet target will make it more difficult to meet CO₂ targets as of 2020. Legislation in the United States on greenhouse gases and fuel consumption impacts German premium manufacturers and thus also the Mercedes-Benz Cars division harder than US manufacturers, for example. As a result of ongoing strong demand for large, powerful engines in the United States, financial penalties cannot be ruled out. Similar legislation exists or is being prepared in many other countries, for example in Japan, South Korea, India, Canada, Switzerland, Mexico, Saudi Arabia, Brazil and Australia. Daimler gives these targets due consideration in its product planning. The increasingly ambitious targets require significant proportions of plug-in hybrids or cars with other types of electric drive. The market success of these drive systems is greatly influenced by regional market conditions, for example the battery-charging infrastructure and state support. Risks result from the high degree of uncertainty relating to the market environment.

In the past two years, the diesel technology that is important in particular for achieving the challenging CO₂ targets in the EU came under pressure due to air-quality problems in cities (failure to meet NO_x limits). In this environment, large parts of the Real Driving Emission (RDE) legislation have been or are being introduced. This has led to very ambitious legislation, which will require very complex exhaust-gas aftertreatment and detailed documentation as of 2017. It still remains to be seen to what extent the negative headlines and the threat of driving bans on diesel vehicles have unsettled customers, with resulting shifts in the drive-system portfolio (fewer diesel and more gasoline engines). If such a shift occurs over the long term, additional measures will have to be taken to meet the CO₂ fleet limits as of 2020. On the other hand, a ban only on those cars with the most polluting diesel engines (not a total ban) could result in competitive advantages for our new 4 and 6-cylinder engines (OM 654 and OM 656) with their very good emission levels.

Pursuant to EU Directive 2006/40/EC, since January 1, 2011, vehicles only receive type approval if their air-conditioning units are filled with a **refrigerant** that meets certain criteria with regard to climate friendliness. For vehicles produced on the basis of type approvals granted previously, the directive allows a period of transition until December 31, 2016. Mercedes-Benz vehicles will fully comply with these legal requirements as of January 1, 2017 through the application of CO₂ air-conditioning and the refrigerant R1234yf in combination with a specially developed safety device that will be used depending on each vehicle's configuration. In December 2015, the EU Commission decided that it would file a lawsuit with the European Court of Justice (ECJ) against the Federal Republic of Germany. The Commission sees a contravention of the type-approval directive by the German authorities. At present, the Group does not assume that this will result in material effects on its profitability, cash flows or financial position.

Strict regulations for the reduction of vehicles' emissions and fuel consumption create potential risks also for the **Daimler Trucks** division. For example, legislation was passed in Japan in 2006 and in the United States in 2011 for the reduction of greenhouse-gas emissions and fuel consumption by heavy-duty commercial vehicles. In China, legislation has been drafted which is likely to affect exports to that country and require additional expenditure as of 2017. The European Commission is currently working on methods for measuring the CO₂ emissions of heavy-duty commercial vehicles that will probably have to be applied as of 2018. It has also started to consider limits on trucks' CO₂ emissions. We have to assume that the statutory limits will be very difficult to meet in some countries.

Very demanding regulations for CO₂ emissions are also planned or have been approved for light commercial vehicles. This will present a challenge for **Mercedes-Benz Vans**, especially in the long term. In the United States, Mercedes-Benz Vans is affected to varying degrees by fuel-consumption and greenhouse-gas regulations for both light-duty and heavy-duty vehicles. The stricter limits planned for the years 2021 to 2027 will also affect Mercedes-Benz Vans.

In addition to emission, fuel-consumption and safety regulations, **traffic-policy restrictions** for the reduction of traffic jams, noise and emissions are becoming increasingly important in cities and urban areas of the European Union and other regions of the world. Drastic measures are increasingly being taken such as general vehicle-registration restrictions and the limited allocation of car-registration approvals, for example in Beijing, Guangzhou and Shanghai and other urban areas. This can have a dampening effect on the development of unit sales, especially in growth markets. Pressure to reduce personal transport is also being applied in European cities through increasing measures such as restrictions on vehicles entering or driving in inner cities. The debate about restricting certain drive systems in Germany is another source of increasing uncertainty. This stimulates demand for mobility services, including car sharing services. In order to utilize the resulting opportunities, Daimler is present in the market with the provision of innovative mobility services (including car2go, moovel and mytaxi).

Daimler continually monitors the development of statutory and political conditions and attempts to anticipate foreseeable requirements and long-term targets at an early stage in the process of product development. The biggest challenge in the coming years will be to offer an appropriate range of drive systems and the right product portfolio in each market, while fulfilling customers' wishes, internal financial targets and statutory requirements. With an optimal product portfolio and market-launch strategy, competitive advantages may also arise.

The position of the Daimler Group in key foreign markets could also be affected by an **increase in bilateral trade agreements**. If bilateral agreements are concluded without the involvement of the European Union or without the conclusion of equivalent agreements by the EU, the position of the Daimler Group could be significantly impacted. At the same time, however, this could also result in opportunities for the Daimler Group if the EU concludes agreements with markets which have no similar agreements with other important competitive markets.

Furthermore, 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 actions**. This applies to the markets of developing countries and emerging economies, but also to Europe, the United States and China. Furthermore, attempts are being made to limit growth in imports by making **certification processes** more difficult, through delays in certification and through other barriers to market access, while attracting direct foreign investment by means of appropriate **industrial policies**. Changes in tax subsidies or the like have the potential to significantly influence the overall market development and to increase uncertainties in the planning process.

In order to adapt to these requirements, Daimler has already increased its local value added in major markets, and has thus taken appropriate action in good time. On the basis of our production locations' increasing proximity to the various markets, however, further opportunities also exist for the Daimler Group such as logistical advantages or opportunities relating to the utilization of market potential.

Company-specific risks and opportunities

The following section is responsive to the company-specific risks and opportunities of the Daimler Group. A quantification of these risks and opportunities is shown in table [7 B.60](#).

Production and technology risks and opportunities

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 promote accident-free driving or further improve the product’s fuel consumption and emissions e.g. diesel-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 growing technical complexity, continually rising requirements in terms of emissions, fuel consumption and safety, as well as meeting and steadily raising the Daimler Group’s quality standards, product launching 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 continually evaluated and improved. In order to safeguard and enhance the long-term future-orientation of production facilities, modernization, expansion, construction and restructuring measures are carried out. The **execution of modernization activities and the launch of new products** are generally connected with high investments. Guidelines or delays in the ramp-up phase of an innovation or during a product’s lifecycle can lead to a

short-term reduction in production level. In order to achieve a very high level of quality, which is one of the main decision attributes of customers for the products of the Daimler Group, it is necessary to make investments in new products and technologies that sometimes exceed the actually planned scope. Such a cost overrun would then reduce the anticipated earnings from the launch of a new model series or product generation. Those automotive segments are affected which are currently launching a new product or are planning a related production buildup. In this context, it is also necessary to consider dependencies between contractual partners and possible changes in regional conditions, which have to be included in the local decision-making process.

In principle, there is a danger that infrastructure problems or the failure of **production equipment or a production plant** cause internal bottlenecks that would consequently generate costs. With the parallel failure of several production plants, the resulting effects could accumulate. These risks mainly exist for the Mercedes-Benz Cars segment. The production equipment is continually maintained and modernized. As a precaution, spare parts are held available or, if required, alternative production structures are build up for the production plants that might be at risk.

Insufficient availability of vehicle components at the right time, interruptions in the supply chain as well as possible interruptions in the supply by energy providers can lead to bottlenecks. In order to avoid such **bottleneck situations**, priority is given to a balanced capacity planning. In addition, supply chains and the availability and quality of products are continuously monitored within the context of managing the entire value chain. All segments undertake supplier management for the prevention of risks. With regard to energy supply, necessary precautionary measures are taken and alternative supply lines are build up.

B.60

Company-specific risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
Production and technology risks	Low	High	Production and technology opportunities	-
Information technology risks	Low	Medium	Information technology opportunities	-
Personnel risks	Low	Medium	Personnel opportunities	-
Risks related to equity interests and joint ventures	Low	Low	Opportunities related to equity interests and joint ventures	Low

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 can not be provided in the required form in connection with product problems and product care. Such claims are examined and, if applicable, necessary measures are taken on the affected products. This can reduce the products' profitability and generate follow-up costs. The Daimler Group works continually and intensively to maintain product quality at a very high level, along with growing product complexity, in order to avoid the risk of needing correction measures on end products and to supply customers with the best possible products. Furthermore, processes are implemented at the Daimler Group to regularly obtain customers' opinions on the support provided to improve service and customer satisfaction continuously. Quality problems with suppliers' components fitted to vehicles can result in production and technology risks for the Daimler Group. This includes risks in connection with industry-wide problems with Takata airbags.

The possible impact of production and technology risks is assessed as "high", as in the previous year. However, due to the industry-wide problems with Takata airbags, the risks have increased significantly.

Information technology risks and opportunities

The digitization strategy that is systematically pursued at Daimler offers new possibilities for enhancing customer benefits and enterprise value. However, it includes risks from the increasing dependency of products and business processes from IT. In addition, specific risks exist due to the use and availability of new technologies in connection with digitization, which for example can affect the products, their use, or the operational business.

It is essential for a global company like Daimler that information is currently maintained and exchanged, comprehensively and correctly. Appropriately secure IT systems and a reliable IT infrastructure must be used to protect information. Risks that could result in the interruption of business processes due to the failure of IT systems or which could cause the loss or corruption of data are therefore identified and evaluated over the entire life cycle of applications and IT systems.

In order to fulfill the growing requirements on the confidentiality, integrity and availability of data, so that related risks are avoided and possible damage is limited, Daimler has defined various preventive and corrective measures. These measures are continually adapted to changing circumstances. For example, the Group minimizes potential interruptions of operating processes in data centers by measures like mirrored data sets, decentralized data storage, outsourced data backups and IT systems designed for high availability. To ensure operating capability, emergency plans are developed, employees are trained and further technical and organizational precautions are taken. Specific threats are analyzed and countermeasures are coordinated at a central cyber security center. The protection of our products and services from danger caused by hacking and cybercrime is developed in line with the threat situation.

Despite all precautionary measures disturbances in information processing and therefore negative impacts on the business processes cannot be completely ruled out. The possible impact and probability of occurrence of IT risks remain unchanged compared to the previous year.

Personnel risks and opportunities

Daimler's success is highly dependent on its employees and their expertise. They are involved in their respective activities and working processes with their ideas and suggestions, and thus contribute considerably every day to improvements and innovations.

To support this process, the Daimler Group has established an **ideas management** system through which employees can submit ideas and suggestions for improvements. The target-oriented processing of the incoming information in the employee suggestion system and the integration of ideas in an assessment process carried out by experts and persons in charge of the respective processes is supported by an established IT system. This is intended to ensure the systematic and sustained encouragement of employees' ideas and suggestions for improvement.

Furthermore, workgroups create processes and instruments to produce new business ideas and to establish inter-departmental cooperation. In this context, an online community exists in the area of **business innovation** to which suggestions for discussions can be submitted, which all employees can assess and develop further.

Competition for highly qualified staff and management is still very intense in the industry and the regions in which Daimler operates. The future success of the Daimler Group also depends on the magnitude to which we succeed over the long term in recruiting, integrating and retaining specialist employees. The established human resources instruments take such personnel risks into consideration, while contributing toward the recruitment and retention of staff with high potential and expertise and ensuring transparency with regard to the resources of the Daimler Group. One focus of human resources management is the targeted personnel development and further training of the workforce. Employees benefit for example from the range of courses offered by the Daimler Corporate Academy and from the transparency created by a uniform worldwide performance and potential management system. Management culture and principles are currently being further developed in a Group-wide project.

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. We address this issue by taking appropriate measures in the area of generation management. If this risk occurs, depending on the size of the personnel shortage, an impact is to be expected on the Group's activities and thus also on the earnings of the Daimler Group. Risks in the context of collective bargaining negotiations currently exist only to a limited extent.

There is no segment-specific assessment of the human resources risk because the described risks are not related to any specific business segment, but are valid for all segments in the respective region. Personnel risks overall have decreased compared with the previous year with regard to both their possible impact and probability of occurrence.

Risks and opportunities related to associated companies, joint ventures and joint operations

Cooperation with partners in associated companies, joint ventures and joint operations and other types of partnership is of key importance for Daimler. Along with ensuring better access to growth markets and new technologies, these shareholdings and partnerships help us exploit synergies and improve cost structures and thus enable us to successfully respond to the competitive situation in the automotive industry.

Through investments in start-ups, Daimler promotes innovative approaches in many areas of the Group.

Daimler generally bears a proportionate share of the risks and opportunities from associated companies, joint ventures and joint operations. Possible risks from negative financial developments or from delays in setting up development and production structures, which can negatively impact the achievement of targets in the affected segments, are considered in separate categories.

In addition, risks and opportunities could arise from the remeasurement of an associated company, joint venture or joint operation relating to the corresponding carrying value for the segment to which it is allocated. Furthermore, the business activities of an associated company, joint venture or joint operation, or a disposal or acquisition of a stake in such an entity, could cause financial obligations or an additional financing requirement, but can also cause higher income or cash inflows in excess of the targets set. Such risks are also generally connected with start-ups whose further development is not yet foreseeable. Risks from associated companies, joint ventures and joint operations exist in the Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans and Daimler Financial Services segments, as well as in the associated companies, joint ventures and joint operations directly allocated to the Group.

All associated companies, joint ventures and joint operations are subject to a continuous monitoring process so that they can be promptly supported if required and their profitability can be ensured. The recoverable value of investments is also continually monitored. Due to the development of the quoted portfolio, the probability of occurrence and the possible impact of risks in this category has decreased compared to the previous year from "medium" to "low."

Financial risks and opportunities

The following section deals with the financial risks and opportunities of the Daimler Group. Risks and opportunities can have a negative or positive effect on the profitability, cash flows and financial position of the Daimler Group. The probability of occurrence and possible impact of these risks and opportunities is presented in table [B.61](#).

In principle, the Group's operating and financial risk exposures underlying its financial risks and opportunities can be divided into symmetrical and asymmetrical risk and opportunity profiles. With the symmetrical risk and opportunity profiles (e.g. currency exposures), risks and opportunities exist equally, while with the asymmetrical risk and opportunity profiles (e.g. credit and country exposures), the risks outweigh the opportunities.

B.61

Financial risks and opportunities

Risk category	Probability of occurrence	Impact	Opportunity category	Impact
Exchange rate risks	Low	High	Exchange rate opportunities	High
Interest rate risks	Low	Low	Interest rate opportunities	Low
Commodity price risks	Low	Low	Commodity price opportunities	Low
Credit risks	Low	Low	Credit opportunities	-
Country risks	Low	Low	Country opportunities	-
Risks of restricted capital-market access	Low	Medium	Opportunities of restricted capital-market access	-
Risks relating to pension plans	Low	High	Opportunities relating to pension plans	High
Risks from changes in credit ratings	Low	Low	Opportunities from changes in credit ratings	Low

Daimler is generally exposed to risks and opportunities from changes in market prices such as currency exchange rates, interest rates, commodity prices and share prices. Market-price changes can have a negative or positive influence on the Group's profitability, cash flows and financial position. Daimler manages and monitors market-price risks and opportunities primarily in the context of its operational business and financing activities, and applies derivative financial instruments for hedging purposes where needed, thus limiting both market-price risks and opportunities.

In addition, the Group is exposed to credit and country-related risks and risks of restricted access to capital markets. As part of the risk management process, Daimler regularly assesses these risks by considering changes in key economic indicators and market information. Pension plan assets to cover retirement and healthcare benefits (market sensitive investments including equities and interest-bearing securities) are not included in the following analysis.

Exchange rate risks and opportunities

The Daimler Group's global orientation means that its business operations and financial transactions are connected with risks and opportunities related to fluctuations in currency exchange rates. This applies in particular to fluctuations against the euro of the US dollar, Chinese renminbi, British pound and other currencies such as currencies of growth markets. An exchange rate risk or opportunity arises in business operations primarily when revenue is generated in a currency different from that of the related costs (transaction risk). This applies in particular to the Mercedes-Benz Cars division, as a major portion of its revenue is generated in foreign currencies while most of its production costs are denominated in euros. The Daimler Trucks division is also exposed to such transaction risks, but to a lesser degree because of its worldwide production network. Regularly updated currency risk exposures are successively hedged with suitable financial instruments (predominantly currency forwards and options) in accordance with exchange rate expectations, which are continually reviewed, whereby both risks and opportunities are limited. Any overcollateralization caused by changes in exposure is generally reversed by suitable measures without delay. Exchange rate risks and opportunities 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 and opportunities

Changes in interest rates can create risks and opportunities 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 Financial Services, whose policy is generally to perform term-congruent refinancing. However, to a limited extent, the funding does not match in terms of maturities and interest rates, which gives rise to the risk of changes in interest rates. The funding activities of the industrial business and the financial services business are coordinated at Group level. Derivative interest rate instruments such as interest rate swaps are used to achieve the desired interest rate maturities and asset/liability structures (asset and liability management).

Equity price risks and opportunities

The Group is subject to equity price risks in connection with its listed associated companies and joint ventures. As of December 31, 2016, the only shares that Daimler holds are shares that are included in the consolidated financial statements using the equity method (primarily BAIC Motor). The Group does not include these investments in a market-price risk analysis. The section "Risks and opportunities related to associated companies, joint ventures and joint operations" provides more information on equity risks and opportunities.

Commodity price risks and opportunities

As already described in the section "Procurement market risks and opportunities", the Group's business operations are exposed to changes in the market prices of consignments and raw materials. The Group addresses these procurement risks by means of concerted commodity and supplier risk management. To a minor degree, derivative financial instruments are used to reduce the Group's market-price risks related to the purchase of certain metals.

Credit 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. The following statements pertain to risks arising from the Group's liquid assets; risks related to leasing and sales financing are addressed on [page 164](#). Should defaults occur, this would negatively affect the Group's financial position, cash flows and profitability. In recent years, the limit methodology for exposures with financial institutions has been continually further developed in order to counteract the diminished creditworthiness of the banking sector since the financial crisis. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. Most liquid assets are held in investments with an external rating of A or better.

Country risks

Daimler is exposed to country risks that primarily result from cross-border financing or collateralization for Group companies or customers (for example Turkey), from investments in subsidiaries and joint ventures, and from cross-border trade receivables (for example China). Country risks also arise from cross-border cash deposits at financial institutions. The Group addresses these risks by setting country limits (e.g. for cross-border financing of customers and for hard-currency portfolios from financial services companies) and through investment-protection insurance against political risks in high-risk countries. Daimler also has an internal rating system that divides all countries in which it operates into risk categories.

Risks of restricted access to capital markets

Daimler covers its refinancing needs, among other things, by means of borrowing in the capital markets. 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 its own business policy considerations, may temporarily prevent the company from covering any liquidity requirements by means of borrowing in the capital markets.

Further information on financial risks, risk-limiting measures and the management of these risks is provided in [Note 32](#) of the Notes to the Consolidated Financial Statements. Information on the Group's financial instruments is provided in [Note 31](#) of the Notes to the Consolidated Financial Statements.

Risks and opportunities relating to pension plans

Daimler has pension benefit obligations and to a lesser degree obligations relating to healthcare benefits, which are largely covered by plan assets. The balance of pension obligations less plan assets constitutes the carrying amount or funded status of those employee benefit plans. The measurement of pension obligations and the calculation of net pension expense are based on certain assumptions. Even small changes in those assumptions such as a change in the discount rate could have a negative or positive effect on the funded status and the group equity in the current financial year or could lead to changes in the periodic net pension expense in the following financial year. The fair value of plan assets is determined to a large degree by developments in the capital markets. Unfavorable or favorable developments, especially relating to equity prices and fixed-interest securities, can reduce or increase the carrying value of plan assets. The currently increased volatility of financial markets raises the risks and opportunities relating to the measurement of both pension obligations and plan assets. The structure of pension obligations is taken into consideration with the determination of the investment strategy for the plan assets in order to reduce fluctuations of the funded status. A change in the composition of pension assets can have an additional positive or negative impact on the fair value of the plan assets. The legal situation in connection with pension plans can in some countries lead to payment obligations if underfunding of the plans in those countries has to be offset. Further information on the pension plans and their risks is provided in [Note 22](#) of the Notes to the Consolidated Financial Statements.

Risks and opportunities from changes in credit ratings

Daimler's creditworthiness is assessed by the rating agencies S&P Global Ratings, Moody's Investors Service, Fitch Ratings and DBRS. Risks and opportunities exist in connection with potential downgrades or upgrades to credit ratings by these rating agencies. 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 damage the company's reputation or discourage investors from investments in Daimler AG. A risk to the credit rating of the Daimler Group could also arise if the earnings and cash flows anticipated from the Group's growth could not be realized. Credit rating upgrades could lead to lower borrowing costs for the Group and also facilitate its access to financing sources in the money and capital markets. If the positive development of the Group continues and its cash flow and profitability also develop positively, opportunities could arise for an upgrade of the credit rating on the part of the rating agencies.

Risks from guarantees, legal and tax risks

The Group continues to be exposed to risks from guarantees as well as legal risks and tax risks. Provisions are recognized for those risks if and insofar as they are likely to be utilized and the amounts of the obligations can be reasonably estimated. No quantitative assessment of these risks is carried out.

Risks from guarantees

Issuing guarantees results in liability risks for the Group. For example, Daimler holds an equity interest in the system for recording and charging tolls for the use of highways in Germany, which includes fees for the use of autobahns and selected federal highways, by commercial vehicles. The operation of the electronic toll-collection system is the responsibility of the operator company, Toll Collect GmbH, in which Daimler holds a 45% stake and which is included in the consolidated financial statements using the equity method of accounting. In addition to Daimler's membership of the Toll Collect consortium and its equity interest in Toll Collect GmbH, risks also arise from guarantees that Daimler Financial Services AG has assumed with the other partners in the Toll Collect consortium (Deutsche Telekom AG and Cofiroute S.A.) supporting obligations of Toll Collect GmbH toward the Federal Republic of Germany. These guarantees are connected with the toll system and a call option of the Federal Republic of Germany, i.e. the possibility of the Federal Republic of Germany to take over the shares in Toll Collect GmbH. Claims could be made under those guarantees if toll revenue is lost for technical reasons, if certain contractually defined performance parameters are not fulfilled, if additional claims are made by the Federal Republic of Germany, if the final operating permit is not granted, if Toll Collect GmbH fails to meet contractual obligations, if it fails to have the required equipment available, or if the Federal Republic of Germany takes over Toll Collect GmbH. The maximum loss risk for the Group from these risks can be substantial. Additional information is provided in [Note 29](#) (Legal proceedings) and [Note 30](#) (Financial guarantees, contingent liabilities and other financial commitments) of the Notes to the Consolidated Financial Statements.

Legal risks

Various legal proceedings, claims and government investigations (legal proceedings) are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights, warranty claims, environmental matters, legal proceedings relating to competition law and 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 legal proceedings may have an impact on the Group's reputation.

The automotive industry is subject to extensive governmental regulations worldwide. Laws in various jurisdictions regulate occupant safety and the environmental impact of vehicles, including emission levels, fuel economy and noise, as well as the pollutants generated by the plants where vehicles are produced. Noncompliance with regulations applicable in the different regions could result in significant penalties and reputational harm or the inability to sell 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.

Currently, Daimler is subject to governmental information requests, inquiries and investigations as well as litigation relating to environmental, securities, criminal and other laws and regulations in connection with diesel exhaust emissions. Several federal and state authorities, including in Europe and the United States, have inquired about and are investigating test results, the emission control systems used in Mercedes-Benz diesel vehicles and 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, securities and criminal laws. These authorities include, among others, the U.S. Department of Justice ("DOJ"), which has requested that Daimler conduct an internal investigation, the U.S. Environmental Protection Agency ("EPA"), the California Air Resources Board ("CARB") and other state authorities as well as the U.S. Securities and Exchange Commission ("SEC"). Daimler has also offered its cooperation to the Stuttgart district attorney's office and provided information to it, and has comprehensively responded to the diesel emissions committee of inquiry of the German Parliament. Daimler is fully cooperating with the authorities. Irrespective of such cooperation by Daimler with the authorities, it is possible that civil and criminal investigative and enforcement actions and measures relating to Daimler and/or its employees will be taken, such as subpoenas, i.e. legal instructions issued under penalty of law in the process of taking evidence, or other requests for documentation, testimony or other information, a notice of violation or an increased formalization of the governmental proceedings. Additionally, delays in obtaining regulatory approvals necessary to introduce new or recertify existing diesel models could occur. In light of the recent notices of violation that were issued by US environmental authorities to another vehicle manufacturer in January of 2017, identifying functionalities, apparently

including functionalities that are common in diesel vehicles, as undisclosed Auxiliary Emission Control Devices (AECDS) and potentially impermissible, and in light of the ongoing governmental information requests, inquiries and investigations, and our own internal investigation, it cannot be ruled out that the authorities might reach the conclusion that Mercedes-Benz diesel vehicles have similar functionalities. The inquiries and investigations as well as the replies to the governmental information requests and our internal investigation are still ongoing and open; hence, Daimler cannot predict the outcome at this time. If these or other inquiries, investigations, legal actions and/or proceedings result in unfavorable findings, an unfavorable outcome or otherwise develop unfavorably, Daimler could be subject to significant monetary penalties, remediation requirements, vehicle recalls, process improvements and mitigation measures, and/or other sanctions, measures and actions, including further investigations by these or other authorities and additional litigations. The occurrence of the aforementioned events in whole or in part could cause significant collateral damage including reputational harm. In addition, Daimler's ability to defend itself in litigations could be impaired by unfavorable findings, results or developments in any of the governmental information requests, inquiries, investigations, legal actions and proceedings discussed above. Therefore, it cannot be ruled out that the risks discussed above may materially adversely impact our profitability, cash flows and financial situation.

As legal proceedings are fraught with a large degree of uncertainty, it is possible that after their final resolution, some of the provisions we have recognized for them could prove to be insufficient. As a result, substantial additional expenditures may arise. This also applies to legal proceedings for which the Group has seen no requirement to recognize a provision.

Although the final result of any such litigation may influence the Group's earnings and cash flows in any particular period, Daimler believes that any resulting obligations are unlikely to have a sustained effect on the Group's cash flows, financial position or profitability. Further information on legal proceedings is provided in [Note 29](#) of the Notes to the Consolidated Financial Statements.

Tax risks

Daimler AG and its subsidiaries operate in many countries worldwide and are therefore subject to numerous different statutory provisions and tax audits. Any changes in legislation and jurisdiction, as well as different interpretations of the law by the fiscal authorities – especially in the field of cross-border transactions, may be subject to considerable uncertainty. It is therefore possible that established provisions will not be sufficient, which could have negative effects on the Group's net profit and cash flows.

Any changes or interventions by the fiscal authorities are continuously monitored by the tax department and measures are taken if required.

Overall assessment of the risk and opportunity situation

The overall view of the Group's risk and opportunity situation is the sum of the described individual risks and opportunities of all risk and opportunity categories for the divisions, the corporate functions and the legal entities.

In addition to the risk categories described above, unpredictable events can disturb production and business processes, such as natural disasters, political instability or terrorist attacks. Emergency plans are therefore prepared to allow the resumption of business operations as soon as possible. As far as possible, precautionary measures are taken and insurance policies are arranged. Risks relating to compliance are included in the risk management process and are continually monitored. Regular training courses are carried out to prevent compliance violations.

In addition to the risk categories described above, there are risks that affect the public perception and therefore the reputation of the Daimler Group as a whole. Public interest is focused on Daimler's position with regard to individual issues in the fields of sustainability and integrity. 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 take place under the given conditions. As one of the fundamental principles of business activity, Daimler places particular priority on adherence to applicable laws and ethical standards. In addition, a secure approach to sensitive data is a precondition for business relationships with customers and suppliers in a trusting and cooperative environment.

Overall, risks have increased compared with the previous year. This applies in particular to risks connected with production and technology, as well as risks resulting from possible changes in emission legislation. No risks are recognizable – neither on the balance sheet date nor at the time of preparing the consolidated financial statements – that either alone or in combination with other risks could endanger the continued existence of the Group. But since considerable economic and industry risks still exist, setbacks on the way to sustainably achieving growth and profitability targets cannot be completely ruled out. New competitors in the IT sector for example and the Group's current strategy for (among other things) electric mobility pose further challenges for the Daimler Group and are connected with risks and opportunities. By effectively and flexibly focusing production and sales activities on changing conditions, the divisions of the Daimler Group strive to utilize the opportunities offered so that they can fulfill or surpass their respective targets and plans. As far as it can be influenced by the Daimler Group and provided that the required measures are financially viable, the Group takes appropriate action to realize those opportunities.

In order to recognize risks and opportunities at an early stage and to deal successfully with the current risk and opportunity situation, the established risk and opportunity management system is continually monitored and further developed.

Outlook

The statements made in the Outlook chapter are based on the operational planning of Daimler AG as approved by the Board of Management and the Supervisory Board in December 2016. That planning is based on the premises we set regarding the economic situation and the development of the automotive markets. It involves assessments made by Daimler, which are based on relevant analyses by various renowned economic research institutes, international organizations and industry associations, as well as on the internal market analyses of our sales companies. The prospects for our future business development as presented here reflect the targets of our divisions as well as the opportunities and risks presented by the anticipated market conditions and the competitive situation during the planning period. Against this backdrop, we adjust our expectations for business development to reflect updated forecasts for the development of the various automotive markets. The statements made below are based on the facts known to us at the beginning of 2017.

Our assessments for the year 2017 are based on the assumption of generally stable economic conditions and the expectation that the moderate upward trend of the global economy and of worldwide demand for motor vehicles will continue. The development we have outlined is subject to various opportunities and risks, which are explained in detail in the Risk and Opportunity Report on [pages 158 ff.](#)

The world economy

At the beginning of 2017, the world economy is continuing along a path of steady, if very moderate, growth. We expect growth to accelerate slightly as the year progresses. For the full year, the advanced economies are likely to achieve growth rates similar to those of 2016. The emerging markets, however, should experience a slight revival after several years of economic weakness.

Various indicators suggest that the US economy should expand faster again after rather weak growth in 2016, although interest and inflation rates are likely to rise slightly. While private consumption will continue to profit from the favorable labor market and rising incomes, the expected acceleration will be mainly driven by investment. Another important question for the year 2017 will be which expansive fiscal policies are implemented by the new administration. Although those policies are unlikely to have their full effects before 2018, a certain boost to the economy could also occur this year, depending on the magnitude of stimulating measures. Overall, most analysts currently anticipate growth in gross domestic product (GDP) of 2 to 2.5%.

Growth prospects for the Japanese economy remain rather moderate. Although domestic demand could develop rather more dynamically than in 2016, current GDP growth forecasts are only of the magnitude of 1%.

The economy of the European Monetary Union (EMU) has proven to be quite resilient in the past two years, and should continue its upward trend in 2017, although at a moderate growth rate. But due to the possible negative effects of the British referendum on leaving the European Union (EU), we expect economic growth to be somewhat slower than last year. The European Central Bank is likely to maintain its expansive monetary policy during 2017. There should also be a little positive economic stimulus from the fiscal side. At present, we anticipate GDP growth in the EMU of approximately 1.5%. Current forecasts for growth in Germany are of the same magnitude. Although the negotiations on the UK's exit from the EU expected for the coming months are likely to have a negative impact, no severe slump is currently anticipated for the British economy.

The emerging economies could achieve aggregate growth in output of just over 4% in 2017, which would bring them back to their long-term trend. This improvement is primarily the result of the expected development on the South American continent and also in Russia. In both regions, a return to slight growth is now generally anticipated after the recessions there, some of which were quite severe. A key factor behind this improvement is the ongoing, although only gradual, stabilization of raw-material prices expected in 2017. However, oil prices in particular will probably remain too low to provide sustained economic stimulus in the countries of the Middle East. In view of the volume it has now reached, GDP growth in China is likely to continue slowing down in the coming years. But we assume that the political decision makers will take countermeasures and carry out fine tuning in good time, thus succeeding in avoiding a “hard landing” also this year, and we anticipate growth of just under 6.5%.

Overall, there are some indications that the world economy will perform somewhat better in 2017 than the weak growth of the previous year, but will probably not exceed the rather below-average growth corridor of 2.5 to 3%.

Automotive markets

Worldwide **demand for cars** is likely to increase again from a high level in 2017. According to current forecasts, slight growth in the magnitude of 1 to 2% is to be expected. One of the factors decisive for global economic dynamism will be the extent to which market growth weakens in China, now that the tax incentives for cars with small engines have been reduced since the beginning of 2017. Despite the dynamic market development in 2016, we anticipate further slight growth in China.

The US market for cars and light trucks should this year maintain its exceptionally high level of more than 17 million units sold. Possible fiscal-policy stimulus from the new US government could have an additional positive impact on demand. In Europe, we expect a slightly larger market overall. In Western Europe, it must be assumed that the number of cars sold will be only at about the level of 2016, following the rather lively recovery of recent years. The solid market volume that has meanwhile been reached again and the somewhat dampened economic growth following the Brexit vote in the United Kingdom are the main reasons for the expected stagnation of demand. In key markets such as Germany and France, slight growth is to be anticipated at best, and a market correction is likely in the UK. After the drastic contraction of recent years, the Russian car market should recover in 2017.

Following two years of falling demand, we expect a stabilization of car sales in Japan this year. In India, the dynamic growth of recent years is likely to continue with another significant increase in demand.

Demand for medium- and heavy-duty trucks in the regions relevant for us is likely to remain at the rather weak prior-year level.

In the NAFTA region, the cyclical market correction can be expected to continue. In weight classes 6-8, it must be assumed that demand will decrease by approximately 5% after the significant drop in 2016. In the heavy-duty segment (class 8), the weakening of demand is likely to be rather more pronounced.

The market of the EU30 region (European Union, Switzerland and Norway) temporarily peaked last year, according to current assessments. In a rather more restrained economic environment than last year, we expect truck sales to decrease slightly. After the end of the deep economic recession in Brazil, only a slight recovery of the truck market from a very low level can be expected there. And after last year’s dramatic slump in Turkey, a further slight decrease is anticipated. Starting from a very low level, significant recovery of demand is to be expected in Russia. The Chinese market should remain fairly stable, following its strong growth of 2016.

The most important Asian markets from Daimler’s perspective are likely to present a mixed picture in 2017. As the Japanese market for light-, medium- and heavy-duty trucks has remained at a relatively sound level for several years, a market correction of about 5% is now expected. Following the significant drops in demand of recent years in Indonesia, the overall truck market there is expected to be of the magnitude of 2016. Slight market expansion is anticipated for India. The planned reform of sales taxes, which would reduce truck prices, could have a positive impact on demand during the year.

We expect a slight increase in demand for small, mid-size and large **vans** in the EU30 region in 2017, driven in particular by the German van market, but also by other major European markets. In the United States, demand for large vans is likely to remain fairly stable. On the other hand, the market for mid-size and large vans in Latin America should revive significantly in 2017, although from a very low level. In China, we also anticipate a revival of demand in the market we address there.

We expect slight growth in the market for **buses** in the EU30 region compared with 2016. The market development in Latin America continues to be negatively impacted by the current economic situation in Argentina and Brazil. After the significant drop in demand of recent years, we assume that the market bottomed out in 2016. We anticipate a significant recovery in the year 2017, especially in Brazil, but the market volume will continue to be at a very low level.

Unit sales

Mercedes-Benz Cars will continue its “Mercedes-Benz 2020” strategy in 2017. Overall, we intend to slightly increase our unit sales, thus reaching a new record level. We anticipate further growth above all in China and Europe. This is based on our attractive and young model portfolio, which is more diverse than ever before. The new E-Class models in particular should provide growth impetus. Both the sedan and the wagon versions will be available for the first time over a full year. They will be followed by the new E-Class Coupe this spring and by the E-Class Cabriolet in the summer. But we are well positioned also with our SUVs and the new sports cars that we launched in 2016. Furthermore, we will enhance the attractiveness of our product portfolio with various model upgrades. In particular with the new S-Class, we will strengthen our leading position in the field of automated driving and connectivity. And we will push forward with our Best Customer Experience sales and marketing strategy. For example, the range of services offered by Mercedes me connect will be gradually expanded and rolled out in 20 additional markets. Furthermore, we will enhance the attractiveness of the Mercedes-Benz brand with increasing digitization in retailing and with additional service functions.

In the coming years, we will focus our product portfolio even more closely on future requirements. The acronym CASE stands for Connected, Autonomous, Shared & Services and Electric: These four future-oriented strategic areas will define the mobility of the future. The main challenge consists of intelligently linking up those four areas. We are actively tackling this challenge by promoting the related activities through an organizationally independent unit. Daimler, and in particular Mercedes-Benz Cars, play a leading role in all four areas already today. For example, the “Concept EQ” study that had its world premiere in Paris last year provides a clear outlook on a completely new generation of vehicles from Mercedes-Benz. It shows the possibilities that will be offered for customers by closely linking up the CASE areas. The study is also the starting signal for the new EQ brand, under which Mercedes-Benz will bring together all the key aspects for customer-oriented electric mobility. In line with the intelligent linking up of the CASE areas, the new brand covers a broad spectrum: It ranges from electric vehicles to wall boxes, charging services, home energy storage and sustainable recycling solutions.

The new electric smart (electricity consumption combined: 13.1 - 12.9 kWh/100 km; CO₂ emissions combined: 0 g/km), which can be experienced as of spring 2017 not only as a fortwo, but for the first time also as a forfour, is a key element of our electric offensive. Additional growth opportunities are presented by the “ready to” services, which we launched in 2016 and are successively expanding this year. They augment the spectrum of a vehicle’s use, especially in the city, thus creating significant added value for the customer.

Daimler Trucks anticipates total unit sales in the year 2017 in the magnitude of the previous year. In the three major regions, Europe, North America and Japan, we also anticipate a stable level of unit sales overall, supported by a stronger second half of the year. After last year’s significant market correction in the segment for heavy-duty trucks in the NAFTA region, our unit sales in 2017 should be at the prior-year level. This development will be driven also by the new Freightliner Cascadia, our flagship in the North American market, which went into production at the beginning of 2017. We assume that we will consolidate our already strong market position in 2017. In a slightly declining market environment in the EU30 region, we anticipate unit sales in the volume of 2016. Our sales in Japan should also be at the prior-year level. In Brazil, we expect that along with a gradual market recovery, our unit sales should also be above the very low prior-year level. Also in India, we anticipate unit sales higher than in 2016.

Mercedes-Benz Vans plans to achieve slight growth in unit sales in 2017. We anticipate slight increases in sales of vans also in the EU30 region. In the context of our strategy for the division, “Mercedes-Benz Vans goes global,” we launched the V-Class multipurpose vehicle and the Vito in 2016 also in China, the world’s biggest market for motor vehicles. This will additionally boost demand there in 2017. We aim to achieve further growth also with the Sprinter, which we will produce also in North America in the future. And in late 2017, we will enter the midsize-pickup segment with the X-Class, enabling us to further increase our worldwide unit sales in the long term.

Daimler Buses assumes that it will be able to defend its market leadership in its traditional core markets for buses above 8 tons with innovative, future-oriented and high-quality products. We anticipate total unit sales in 2017 significantly above the prior-year level. We assume that unit sales in the EU30 region will increase moderately. After the substantial decrease in unit sales in Brazil last year, we expect a significant recovery in 2017, but still at a very low level. A continuation of the positive development of unit sales is expected in Mexico.

Daimler Financial Services aims to achieve ongoing growth in the coming years. In the year 2017, we expect a slight increase in new business and further growth in contract volume. This will be primarily driven by the growth of the automotive divisions, especially Mercedes-Benz Cars. In addition, we are utilizing new market potential above all in Asia, and are making use of new and digital possibilities for customer contacts – in particular through the further development of our online sales channels. We see good growth opportunities also in the field of innovative mobility services, where we are active with the brands car2go, moovel and mytaxi, as well as with equity interests in the companies Blacklane and FlixBus.

On the basis of our assumptions concerning the development of automotive markets and the divisions’ planning, we expect the **Daimler Group** to slightly increase its total unit sales in 2017.

Revenue and earnings

We assume that the revenue of the Daimler Group will also increase slightly in 2017, as a result of the overall positive development of unit sales in the automotive divisions.

Our divisions currently have very attractive and competitive product ranges, which have been expanded and systematically renewed in recent years. We therefore assume that Daimler will profit to an above-average extent from the slight growth in global demand for motor vehicles that we expect also in the year 2017, and will be able to strengthen its position in important markets. At Mercedes-Benz Cars, additional growth this year will be driven above all by the new E-Class models, the successful SUVs and the new convertible models. The other automotive divisions are also well positioned with their products, and Daimler Financial Services' new business will profit from further growth in unit sales. Against this backdrop, we expect revenue growth for Mercedes-Benz Cars, Daimler Buses and Daimler Financial Services. Revenue at Daimler Trucks in 2017 should be of the magnitude of the previous year. Unlike the slightly positive development of unit sales expected at Mercedes-Benz Vans, the division's revenue is likely to be at the prior-year level, as contract manufacturing of vans for Volkswagen was discontinued in the fourth quarter of 2016.

In regional terms, we expect the highest growth rates in Asia and Europe, but our business volumes should expand also in the other regions. In particular in China, we have created the right conditions for further growth with new sales outlets, additional production capacities and a broad product range. But the growth in unit sales in China will have a disproportionately low impact on revenue growth, as the share of local production will continue to increase. Our Chinese associated company Beijing Benz Automotive China (BBAC) is included in our consolidated financial statements using the equity method of accounting.

The growth in unit sales and revenue that we anticipate will have a positive impact on earnings in 2017. We have laid the foundations for a lasting high level of earnings with various programs for improved profitability, which we implemented in the years 2013 to 2015. We are currently taking further measures in all divisions for the long-term and structural optimization of our business system. We are standardizing and modularizing our production processes throughout the Group. In this context, we are making intelligent use of vehicle platforms, allowing us to achieve further cost advantages. In parallel, we are pushing forward with digital connectivity: in all divisions and at all stages of the value chain – from development to production to sales and service. In this way, we are opening up additional scope to become even faster, more flexible and more efficient – to the benefit of our customers.

There will be opposing effects, however, from the ongoing high expenditure for our model offensive, for innovative technologies, for the digitization of our products and processes, and for the expansion and modernization of our worldwide production facilities. As a result, our advance expenditure aimed at securing a successful future will once again be higher in 2017 than in the previous year.  [page 178](#)

On the basis of the market developments we expect, the aforementioned factors and the planning of our divisions, we assume that **Group EBIT** will increase again slightly in 2017.

The individual divisions have the following expectations for EBIT in the year 2017:

Mercedes-Benz Cars: significantly above the prior-year level,
Daimler Trucks: slightly below the prior-year level,
Mercedes-Benz Vans: significantly below the prior-year level,
Daimler Buses: slightly above the prior-year level
Daimler Financial Services: in the magnitude of the prior year.

The decrease in earnings we anticipate at Daimler Trucks primarily reflects expenditure incurred in connection with the further optimization of fixed costs. We expect this to result in a total expense in the magnitude of up to €500 million, mainly in the year 2017. This will be partially offset by income of approximately €250 million that we expect from the sale of real estate at the Kawasaki site in Japan. The Mercedes-Benz Vans division achieved very high EBIT and a high return on sales in 2016. Compared with the long-term average, we anticipate a very high level of earnings also in 2017. The main cause of the significant decrease compared with 2016 will be high advance expenditure for the renewal and expansion of the product portfolio.

Free cash flow and liquidity

The anticipated development of earnings in the automotive divisions will have a positive impact on the free cash flow of the industrial business. In view of repeated higher advance expenditure for new products and technologies, the free cash flow from the industrial business should be of the same magnitude as in 2016, and thus higher than the dividend distribution in 2017.

For the year 2017, we aim to have liquidity available in a volume appropriate to the general risk situation in the financial markets and to Daimler's risk profile. When measuring the level of liquidity, we give due consideration to possible refinancing risks caused for example by temporary distortions in the financial markets. We continue to assume, however, that we will have very good access to the capital markets and bank markets also in the year 2017. We aim to cover our funding needs in the planning period primarily by means of bonds, commercial paper, bank loans, customer deposits in the direct banking business and the securitization of receivables in the financial services business; the focus will be on bonds and loans from globally and locally active banks. In view of the very good liquidity situation of the international capital markets and our strong creditworthiness, we expect a continuation of very attractive refinancing conditions in 2017. An additional goal is to continue securing a high degree of financial flexibility.

Dividend

We aim to achieve a sustainable dividend development also in the coming years. In setting the dividend, our target is to distribute approximately 40% of the net profit attributable to Daimler shareholders.

At the Annual Shareholders' Meeting on March 29, 2017, the Board of Management and the Supervisory Board will propose a dividend of €3.25 per share (prior year: €3.25). This represents a total distribution of €3.5 billion (prior year: €3.5 billion). With this proposal, we are letting our shareholders participate in the Company's success.

Investment

In order to achieve our ambitious growth targets, we will systematically expand our product range in the coming years. In this context, we also aim to utilize growth potential outside our traditional markets by taking appropriate local action. At the same time, we want to make sure that we can play a leading role in the far-reaching technological transformation of the automotive industry. This applies in particular to the digital connectivity of our products and processes along the entire value chain. By intelligently connecting the constantly growing volumes of data, we will create efficiency advantages, improve our product quality and facilitate the ongoing flexibilization of the production process. Against this backdrop, we will once again significantly increase our investment in property, plant and equipment in the year 2017.

Following the significant increase in the year 2016, capital expenditure at Mercedes-Benz Cars will increase again in 2017. The most important projects include the product ramp-up of the new GLE and GLS, the successor models of the current compact class, and new gasoline and diesel engines. Substantial investment is planned also for the realignment of our German production sites as competence centers, as well as for the expansion of our international production network. Daimler Trucks will mainly invest in successor generations of existing products, in new products, in global component projects and in the optimization of its worldwide production network. At Mercedes-Benz Vans, the focus of capital expenditure will be on production of the next generation of the Sprinter in Germany and the United States. Key projects at Daimler Buses are improvements in the production network and advance expenditure for new models, in particular for the development of an electrically powered city bus.

Research and development

With our research and development activities, our goal is to further strengthen Daimler's competitive position against the backdrop of upcoming technological challenges. We want to create competitive advantages above all by means of innovative solutions for low emissions and safe mobility. In addition, we intend to utilize the growth opportunities offered by worldwide automotive markets with new and attractive products. We are increasingly focusing on the strategic areas for the future of connectivity, autonomous driving, flexible use and services, and electric drive, which we have given the acronym CASE (Connected, Autonomous, Shared & Services and Electric). We aim to occupy a leading position in these areas, both individually and by linking them up intelligently. In order to achieve our goals, we will once again significantly increase our total expenditure for research and development in 2017. At Mercedes-Benz Cars, a large part of that expenditure will flow into the renewal and expansion of our model range. The division's most important projects are the successor models of the GLE and GLS and the new compact models. We are also working hard on new, low-emission combustion engines, electric mobility, the connectivity of our vehicles and innovative safety technologies for autonomous driving. At Daimler Trucks, the focus will be on activities in the areas of fuel efficiency and emission reductions, as well as expenditure for tailored products and technologies for the Latin American market and China. Key projects at Mercedes-Benz Vans are the successor generation of the Sprinter, the new X-Class pickup and the further development of the Vito and V-Class. Another important topic is the connectivity of products and processes, especially the innovative connectivity solution Mercedes PRO. An important area of research and development at Daimler Buses is to meet future emission standards and to increase fuel efficiency. Alternative drive systems – electrification in particular – will also play an important role at Daimler Buses.

The workforce

Due to the growth in unit sales and revenue that we expect, production volumes will continue rising in 2017. At the same time, the efficiency-enhancing measures we have implemented in recent years at all divisions are now taking effect. The medium- and long-term measures we have taken for structural improvements of our business processes should facilitate further efficiency progress. Against this backdrop, we assume that we will be able to achieve our ambitious growth targets with slight workforce growth. Additional employees will be required in particular for the expansion of our international production network, as well as in the area of research and development for projects in the future areas of electric mobility and digitization. More jobs are likely to be created also at companies that we operate together with Chinese partners and whose employees are not included in the figures for the Daimler Group.

Overall statement on future development

We have implemented our strategy with great determination in recent years, thus creating the basis for further growth:

- We are very well positioned in our markets with innovative products and services. We are increasingly succeeding in addressing new target groups, utilizing additional market potential and strengthening our market position worldwide.
- In particular with autonomous driving, we have gained a competitive advantage with pioneering innovations. This is demonstrated also by the innovative concept vehicles we presented in the year 2016.
- With the efficiency programs that have been implemented in all divisions in recent years, we have improved our cost structures on a sustained basis and thus laid the foundations for a high level of profitability. This means that we have created a sound financial basis for further profitable growth.
- Through the digitization of the entire value chain, we are now able to shorten the development process, and to make production more flexible and marketing and sales channels more direct. By making intelligent use of constantly rising volumes of data while linking up all elements of the value chain, we are gaining further efficiency advantages, improving quality and facilitating the flexibilization of the entire production process.
- We will once again increase our advance expenditure for the future of the Daimler Group, on the basis of our healthy business development. In particular in the strategic, future-oriented areas of connectivity, autonomous driving, flexible use and services, and electric drive, as well as by intelligently linking up those areas, we will therefore play a leading role also in the future.
- Together with the workforce, we are developing a new leadership culture under the heading of Leadership 2020 that will allow us to successfully shape our future. In this way, we are meeting the challenges of the digital world and creating the basis for cultural changes at the Group.

Against this backdrop, we look to the year 2017 with confidence. We anticipate higher unit sales, revenue and earnings than in the previous year.

Forward-looking statements

This document contains forward-looking statements that reflect our current views about future events. The words "anticipate," "assume," "believe," "estimate," "expect," "intend," "may," "can," "could," "plan," "project," "should" and similar expressions are used to identify forward-looking statements. These statements are subject to many risks and uncertainties, including an adverse development of global economic conditions, in particular a decline of demand in our most important markets; a deterioration of our refinancing possibilities on the credit and financial markets; events of force majeure including natural disasters, acts of terrorism, political unrest, armed conflicts, industrial accidents and their effects on our sales, purchasing, production or financial services activities; changes in currency exchange rates; a shift in consumer preferences towards smaller, lower-margin vehicles; a possible lack of acceptance of our products or services which limits our ability to achieve prices and adequately utilize our production capacities; price increases for fuel or raw materials; disruption of production due to shortages of materials, labor strikes or supplier insolvencies; a decline in resale prices of used vehicles; the effective implementation of cost-reduction and efficiency-optimization measures; the business outlook for companies in which we hold a significant equity interest; the successful implementation of strategic cooperations and joint ventures; changes in laws, regulations and government policies, particularly those relating to vehicle emissions, fuel economy and safety; the resolution of pending government investigations or of investigations requested by governments and the conclusion of pending or threatened future legal proceedings; and other risks and uncertainties, some of which we describe under the heading "Risk and Opportunity Report" in this Annual Report. If any of these risks and uncertainties materializes or if the assumptions underlying any of our forward-looking statements prove to be incorrect, the actual results may be materially different from those we express or imply by such statements. We do not intend or assume any obligation to update these forward-looking statements since they are based solely on the circumstances at the date of publication.



We convince our customers with innovative vehicles and services

Daimler's business operations developed positively overall in the year 2016. The return on sales of 9.4% in the automotive business adjusted for special items once again surpassed our target. The divisions Mercedes-Benz Cars and Mercedes-Benz Vans significantly increased their revenue and unit sales, and the Daimler Financial Services division also increased its new business. The unit sales of Daimler Trucks and Daimler Buses decreased significantly for market reasons. With innovative technologies, groundbreaking concept vehicles and completely new service offerings, we presented solutions for the mobility of the future.

C | The Divisions

Mercedes-Benz Cars

182 – 187

- Unit sales and revenue at record levels
- Acceleration of model offensive
- Successful start of new Mercedes-Benz E-Class
- Presentation of EQ brand for electric mobility and of Concept EQ
- Launch of ten new models in China
- “Best Customer Experience” pushed forward with new sales formats
- Presentation of new electric smart models
- Great success in motorsport
- CO₂ emissions average of 123 g/km
- EBIT of €8.1 billion slightly above prior-year level (2015: €7.9 billion)

Daimler Trucks

188 – 192

- Worldwide unit sales of 415,100 trucks
- Global market presence expanded with new regional centers
- Presentation of automated trucks driving in a platoon with license for public roads
- Presentation of Urban eTruck, FUSO eCanter and Freightliner Cascadia
- Presentation of new safety systems Active Brake Assist 4 and Sideguard Assist
- Presentation of connectivity services such as Mercedes-Benz Uptime
- Expansion of platform strategy also with Truck Data Center, the newly developed connectivity hardware
- Significant decrease in EBIT to €1.9 billion (2015: €2.6 billion)

Mercedes-Benz Vans

193 – 195

- Unit sales and revenue at record levels
- V-Class and Vito drive growth
- Three-millionth Sprinter delivered
- Mid-size portfolio now offered also in China
- Ground breaking for new plant in the United States
- “Concept X-CLASS” provides a glimpse of premium pickup
- Presentation of adVANce future initiative
- EBIT significantly above prior-year level at €1.2 billion (2015: €0.9 billion)

Daimler Buses

196 – 198

- Continuation of market leadership in traditional core markets for buses over 8 tons gross vehicle weight
- Target return on sales of 6% achieved
- Positive development of complete-bus business in EU30
- First drive on public roads of Mercedes-Benz Future Bus in partially automated mode
- Further progress with fuel efficiency
- Roadmap presented for alternative drive systems
- EBIT significantly above prior-year level at €249 million (2015: €214 million)

Daimler Financial Services

199 – 201

- Record number of cars and commercial vehicles financed or leased
- Continued high number of automotive insurance policies brokered
- Fleet business strengthened through acquisition of Athlon Car Lease International
- Increased range of innovative mobility services
- car2go expands further and has more than 2.2 million customers
- mytaxi is biggest European taxi network after fusion with Hailo
- First place in Great Place to Work competition
- EBIT slightly above prior-year level at €1.7 billion (2015: €1.6 billion)

Mercedes-Benz Cars

Mercedes-Benz Cars continued to grow profitably and very dynamically in 2016. Unit sales and revenue increased once again, and earnings before interest and taxes reached a record level, despite the considerable advance investment we made in our product offensive. Our most important new model in the year under review was the new E-Class, “the world’s most intelligent business sedan.” Our model offensive focused on convertibles and roadsters as well. We also once again extended and modernized our very successful range of SUVs. In addition, our new EQ brand and the fascinating Concept EQ vehicle study have laid the foundation for a broad-based electric mobility offensive at Mercedes-Benz Cars.

C.01

Mercedes-Benz Cars

	2016	2015	16/15
€ amounts in millions			% change
Revenue	89,284	83,809	+7
EBIT	8,112	7,926	+2
Return on sales (in %)	9.1	9.5	.
Investment in property, plant and equipment	4,147	3,629	+14
Research and development expenditure	5,671	4,711	+20
thereof capitalized	2,008	1,612	+25
Production	2,235,352	2,059,823	+9
Unit sales	2,197,956	2,001,438	+10
Employees (December 31)	139,947	136,941	+2

Growth continues

The Mercedes-Benz Cars division consists of the Mercedes-Benz brand with the Mercedes-AMG, Mercedes-Maybach and Mercedes me sub-brands, as well as the smart brand and the new EQ brand for electric mobility. The division continued on its course of profitable growth in the year under review, with unit sales increasing by 10% to the new record level of 2,198,000 vehicles and revenue rising by 7% to €89.3 billion. ↗ **C.01** We were also able to gain market share in nearly all regions. Our positive overall business development throughout the year was largely due to our new products, in particular our attractive SUVs and the new E-Class. Despite considerable advance investment in our product offensive, we were also able to increase EBIT slightly, to €8.1 billion (2015: €7.9 billion). When adjusted for special items, EBIT corresponds to a return on sales that is higher than our target.

Mercedes-Benz once again posts record unit sales

The Mercedes-Benz brand increased its unit sales by 9% to 2,053,500 vehicles in 2016. Global growth at Mercedes-Benz therefore not only outpaced that of its German competitors, the division also delivered more premium-segment vehicles worldwide than any other automaker. ↗ **C.02** In fact, we are the number one manufacturer in the premium segment in Germany, several core European markets, the United States, Canada and Japan. We also significantly improved our position in China in the year under review.

Mercedes-Benz sold a total of 872,200 vehicles in Europe in 2016, an increase of 12% on the previous year. Double-digit growth was recorded in the volume markets of the United Kingdom (+15%), France (+18%), Italy (+16%) and Spain (+20%). We also increased our unit sales in Germany by 6% to 275,900 vehicles. Sales rose by 20% in China, where we outperformed both the market as a whole and important competitors in the year under review. Sales in the NAFTA region were slightly below the prior year’s level. Although sales rose in Mexico, they declined slightly in the United States and Canada. Sales in Japan decreased by 6% from the previous year as a result of general market developments in that country. However, we were able to record substantial increases in unit sales in South Korea (+33%), Australia (+17%) and Taiwan (+12%).

C.02

Unit sales Mercedes-Benz Cars

	2016	2015	16/15
in thousands			% change
Mercedes-Benz	2,054	1,880	+9
thereof A-/B-Class	435	425	+2
C-Class	490	470	+4
E-Class	304	306	-1
S-Class	84	106	-21
SUVs ¹	712	543	+31
Sports cars	27	29	-7
smart	144	121	+19
Mercedes-Benz Cars	2,198	2,001	+10
thereof Europe	980	874	+12
thereof Germany	314	296	+6
NAFTA region	406	412	-1
thereof United States	347	359	-3
Asia	715	618	+16
thereof China	488	400	+22

¹ Including the GLA



Another dream car: The new Mercedes-Benz E-Class Coupe combines luxury, sportiness and technology at the highest level.

The main contribution to the growth in unit sales came from our SUVs. All in all, sales in the SUV segment increased by 31% to 712,100 units. This positive development was primarily due to the GLC and GLE models, as well as high demand for our SUVs in China. Our A-Class and B-Class models also remained very popular, with sales of these cars increasing by 2% in 2016. Including the CLA and CLA Shooting Brake, a total of 435,400 of these models were delivered to customers. Demand for our C-Class models also remained very strong, with sales increasing by 4% to 490,200 sedans, wagons, coupes and convertibles in the year under review. In the year of the model changeover, sales of the E-Class nearly reached the prior year's level. The new E-Class met with a very positive response from customers, which generated powerful sales momentum in the second half of the year. In total, we sold 304,200 cars in the E-Class segment in 2016, including 188,300 units of the new model. The S-Class performed very well in 2016. With sales of 84,300 units (-21%), the S-Class was once again the world's bestselling luxury sedan.

The new E-Class: a masterpiece of intelligence

In January 2016, Mercedes-Benz presented the new E-Class sedan at the North American International Auto Show in Detroit. The vehicle marks a further milestone on the road to accident-free and autonomous driving. The sedan's attractive design, outstanding comfort and connectivity features all serve to strengthen the loyalty of existing customers and attract new customer groups. Clarity and emotion define the design of the new Mercedes-Benz E-Class, and high-end materials characterize the interior. The new E-Class also features numerous technological innovations that celebrated their world premieres in the model. Mercedes-Benz has taken the next step on the road to autonomous driving with numerous new driver-assistance features. With them, the new E-Class can not only automatically maintain a proper distance to vehicles ahead on highways and country roads, but can also keep the E-Class in its lane at speeds of up to 210 km/h.

The first new E-Class sedan models were delivered to customers in April 2016. A superior driving experience is ensured by a four-cylinder gasoline engine and an all-new four-cylinder diesel engine with an output of 143 kW (195 hp). The latter unit makes a big impression with very low NEDC fuel consumption in the E 220 d (fuel consumption in l/100 km urban: 4.7-4.3 / extra-urban: 4.1-3.6 / combined: 4.3-3.9; CO₂ emissions in g/km combined: 112-102). [pages 126 f](#) The year under review also saw the launch of the E 350 e (fuel consumption in l/100 km combined: 2.1; CO₂ emissions in g/km combined: 49; electricity consumption in kWh/100 km combined: 11.5). With a system output of 210 kW (286 hp), this plug-in hybrid offers the performance of a sports car and the efficiency of a subcompact.

The new E-Class wagon was then presented to the public in June 2016. Like its predecessor, this model is one of the most spacious vehicles in its segment. The model has up to 1,820 liters of cargo space. Moreover, despite a much sportier roof line, space in the rear is once again outstanding for this vehicle class. Developers focused here on practical dimensions and the use of an innovative cargo-space management approach.

In September, Mercedes-Benz presented a new member of the E-Class family in Paris – the new E-Class All-Terrain, which combines a striking appearance in SUV style with the intelligent space concept of the wagon and pioneering E-Class safety innovations. With 4MATIC all-wheel drive as standard and higher ground clearance thanks to the AIR BODY CONTROL multi-chamber air suspension (also standard), the All-Terrain is a true all-rounder with outstanding versatility.

The dream car with the star

Our model offensive during the year under review also focused on convertibles and roadsters. Our range of convertible dream cars extends from the smart fortwo convertible to the S-Class convertible. Mercedes-Benz Cars now offers more young convertibles and roadsters than any other manufacturer. With the world premiere of the first-ever convertible based on the C-Class at the Geneva Motor Show in March 2016, Mercedes-Benz rounded out its range of convertibles in the classic soft-top style. The model is optionally available with the AIRCAP automatic draft stop system and AIRSCARF neck-level heating, which guarantee exceptional comfort during open-top driving 365 days a year. Sporty and agile handling is ensured by efficient and powerful engines and dynamically designed suspension – with AIRMATIC air suspension as an option.

The new S-Class convertible is the sixth variant of the current S-Class family and the first open-top luxury four-seater from Mercedes-Benz since 1971. The sporty and elegant model celebrated its world premiere at the IAA in September 2015 and deliveries began in April 2016. With this new model, Mercedes-Benz has fulfilled its pledge to build the most comfortable convertible in the world.

The new Mercedes-Benz SL has been extensively optimized both technologically and visually and has been available since April 2016. More powerful engines, 9G-TRONIC automatic transmission, DYNAMIC SELECT with five driving modes and Active Body Control with the curve tilting function all take this automotive legend to a new dynamic level. In visual terms, the front end in particular has been made much sportier and includes a new hood, new bumpers and new headlights.

To coincide with its 20th anniversary, the compact SLK roadster was relaunched in April 2016 with significantly optimized engineering features an even more attractive appearance and a new name – the SLC. A particularly striking aspect of the new model is its diamond radiator grille, which is a standard feature.

The new GLS – the S-Class of SUVs

During the year under review, we continued our SUV offensive with the GLS, customer deliveries of which began in the spring of 2016. Like its predecessor, the GL, the new GLS sets standards in the SUV world. The full-fledged seven-seater combines luxury with impressive comfort, agile handling and best-in-class safety. With a total of seven models in all classes, Mercedes-Benz offers a more extensive range of SUVs than any other premium brand.

The sports coupe of SUVs

In September 2016, we extended our range of SUVs to include the all-new GLC coupe, a vehicle that combines the distinctive main body section and the Mercedes design idiom of current SUV models with the characteristic elongated roof line of a sports coupe. This sports car among the mid-size SUVs from Mercedes-Benz also makes a big impression with its typical Mercedes safety features, state-of-the-art assistance systems and outstanding sporty-dynamic character. The model's standard sports suspension, more direct sports steering, DYNAMIC SELECT and 4MATIC permanent all-wheel drive with the 9G-TRONIC nine-speed automatic transmission combine superior ride comfort with exceptionally sporty agility.

EQ: electric mobility redefined

With the Concept EQ, Mercedes Benz demonstrated at the Paris Motor Show that electric cars can soon move into the fast lane. The concept car, which has the appearance of a sporty SUV coupe, offers a preview of a new generation of vehicles with battery-electric drive. With a range of up to 500 kilometers and the typical Mercedes strengths of safety, comfort, functionality and connectivity, the Concept EQ meets every requirement in terms of cutting-edge sustainable mobility. The vehicle also features innovative solutions inside – including a completely new interior concept. The Concept EQ offers a preview of the new EQ product brand for electric mobility. [👁 pages 4 and 20 ff](#)



The sports car among the SUVs: the new Mercedes-Benz GLC Coupe.



Benchmark for open-air driving pleasure: the new Mercedes-AMG Roadsters.

Mercedes-Maybach: perfection blended with exclusivity

Mercedes-Maybach stands for the highest levels of exclusivity and individuality. The luxury brand, which was introduced in November 2014, combines the perfection of the Mercedes-Benz S-Class with the exclusivity of a Maybach. The Mercedes-Maybach S 600 Pullman launched in early 2016 (fuel consumption in l/100 km urban: 19.6 / extra-urban: 10.3 / combined: 13.6; CO₂ emissions in g/km combined: 314) has a face-to-face seating configuration and is a clear top-of-the-line model. Mercedes-Maybach will launch its first convertible in the spring of 2017. The special characteristics of the model, of which a limited edition of only 300 units will be built, include high-end appointments in the interior. The Vision Mercedes-Maybach 6 concept vehicle is a sensational luxury-class coupe offering a preview of the future of the Mercedes-Maybach brand. The 2+2-seater pays tribute to the age of the Aero-Coupes and transports this tradition into the future. The vehicle's electric drive system has an output of 550 kW (750 hp), and the flat underfloor battery has a range of more 500 kilometers according to the NEDC. The battery also boasts a visionary fast-charging feature that allows for an impressive charging power of up to 350 kW. As a result, it takes only five minutes to charge the battery up to a level enabling a further 100 kilometers of driving.

Mercedes-AMG: the sports-car and performance brand

The brand claim of "Driving Performance" reflects the two core competencies of Mercedes-AMG: the ability to provide an unparalleled driving experience and the ability to serve as a driving force in the high-performance segment. The Mercedes-AMG sports-car brand enhances the fascination of Mercedes-Benz. The brand's dynamic vehicles especially attract young and sporty customers to the brand with the three-pointed star. Mercedes-AMG models differ extensively from their production-model cousins in terms of both engineering and appearance, thus strengthening the authenticity and distinctive identity of the Mercedes-AMG brand. Mercedes-AMG positions itself even more aggressively as a dynamic sports car and high-performance brand with the GT. The latest members of this sports car family are the Mercedes-AMG GT Roadster (fuel consumption in l/100 km urban: 15.1-12.2 / extra-urban: 9.0-7.8 / combined: 11.4-9.4; CO₂ emissions in g/km combined: 259-219). True to its philosophy of blending performance with responsibility, Mercedes-AMG is also striving to become even more efficient through new engine technologies and a comprehensive lightweight design approach. Mercedes-AMG models already have some of the lowest emissions in their segments. The sports-car and performance brand from Mercedes-Benz, which is celebrating its 50th anniversary in 2017, extended its product range by more than ten models and delivered 99,200 vehicles to customers in 2016 (+44%). As a result, sales at Mercedes-AMG have more than tripled over the last three years.

smart celebrates a sales milestone and launches new electric vehicles and innovative services

The smart brand achieved a major milestone in September 2016 when it celebrated the sale of more than two million vehicles since 1998. smart cars are now sold in 46 markets worldwide. Total sales of smart-brand vehicles increased by 19% to the new record of 144,400 units in 2016. The smart was particularly popular in China, where sales increased by 70% compared with the previous year. China is now the smart brand's third-biggest sales market after Germany and Italy.

The most important new smart-brand products in the year under review were the new electric drive models (electricity consumption combined: 13.1–12.9 kWh/100 km; CO₂ emissions combined: 0 g/km). These vehicles have made the switch to electric mobility more attractive than ever, as they combine the agility of a smart with locally emission-free driving – the ideal combination for urban mobility. The enjoyment of driving an electric vehicle can now also be experienced for the first time in the four-seat smart forfour, along with the smart fortwo coupe and smart fortwo convertible. The new smart electric drive models had their world premiere at the Paris Motor Show in October 2016; market launch is scheduled to begin in the spring of 2017. [page 24 f](#)

The smart brand has played a pioneering role in the automotive industry since it was launched in 1998, and it continues to redefine urban mobility on a regular basis. In 2016, smart introduced an innovative range of services that expands the utility of smart vehicles in urban settings beyond the basic aspect of driving itself. The first such service is “smart ready to drop,” which makes it possible to deliver parcels straight to a smart vehicle's trunk. This system, which also allows for parcel return

pick-ups, is operated in cooperation with DHL and makes online purchasing even more convenient. It is just one of the many innovative services that will be offered by the smart brand in the future.

Production “in China for China”

If we are to continue growing in China, we need to be able to offer the right products and manufacture them locally. Our product lineup in China was more attractive than ever in 2016. During the year under review, we launched more than ten new or revised models in China, including the new GLS and several smart models. Mercedes-Benz presented the long-wheelbase version of the new E-Class at Auto China in April 2016. This model is tailored to the requirements of the growing Chinese market and is manufactured locally. The long-wheelbase version of the E-Class is 140 millimeters longer than the base model, providing considerably more legroom for passengers in the rear of the vehicle, as well as seats with numerous comfort features. With the launch of the DENZA 400, the second generation of an electric vehicle with a range of up to 400 kilometers, we have also expanded our portfolio of emission-free products in China. The DENZA is built in China for China by the joint venture Shenzen DENZA New Energy Automotive Co., Ltd. In June 2016, Daimler and its joint-venture partner BAIC announced that they will invest more than €500 million in the expansion of their shared engine plant in Beijing.

All in all, we were able to increase sales of Mercedes-Benz brand vehicles in China by 20% to 465,400 units, thus significantly outpacing the growth of the automotive market as a whole. A total of 317,100 of the vehicles we sold in China during the reporting year (2015: 250,200) were manufactured locally at facilities operated by our Beijing Benz Automotive Co Ltd. joint venture (BBAC).



More fuel-efficient, lighter and more compact: the new four-cylinder diesel OM 654 from Mercedes-Benz starts a new engine family.



The new electric smart models combine agility with locally emission-free driving – the ideal combination for urban mobility.

Best Customer Experience

Within the framework of the “Best Customer Experience” marketing and sales strategy, Mercedes-Benz is aligning its sales and marketing organization with changing customer requirements. The goal is to address new target groups while maintaining the brand loyalty of established customers. To this end, Mercedes-Benz is using new sales channels and digital portals as innovative interfaces with the brand. Various sales formats with new, digital channels and digital elements, as well as new roles in retailing, supplement the services offered at traditional Mercedes-Benz dealerships and showrooms. The centerpiece of Best Customer Experience is the range of mobility and other services offered by Mercedes me. [mercedes.me](https://www.mercedes.me) This platform is also the name of a new chain of stores Mercedes-Benz has opened in inner-city locations. Various Mercedes me Stores have opened around the world since 2014. New temporary formats such as special events and pop-up stores have also been created. In addition, the “She’s Mercedes” initiative was launched in 2015. This program is designed to help Mercedes-Benz address women in a targeted manner and significantly increase its proportion of female customers over the medium term. Along with the provision of a new community and inspiration platform, the initiative also includes networking events, training programs for sales personnel and measures to increase the proportion of women in the sales workforce.

Successful motorsports year: #TheTriple

MERCEDES-AMG PETRONAS captured both the Drivers’ and the Constructors’ Championship in the Formula 1 racing series for the third consecutive year in 2016, and also finished first in more races than ever before. In addition, the Mercedes-Benz hybrid-drive system, which is also used by the Williams F1, Sahara Force India and Manor-Racing Formula 1 teams, was both the most efficient and most successful drive system

in the competition. Mercedes-Benz was also very successful in the popular German DTM touring car series, recording four victories and 15 podium finishes in 18 races. We also enjoyed numerous successes with the Mercedes-AMG Customer Sports program in 2016 – including a historic 1-2-3-4 finish in the prestigious Nürburgring 24-hour race. Daimler’s motorsports efforts pay off for the company – not just in the form of significant image enhancement and the extensive publicity provided by the races, but also in terms of the valuable experience we gain with the hybrid technologies and lightweight designs that we use in our motorsports activities, which are also incorporated into our series-production vehicles.

CO₂ emissions at the previous year’s level

Mercedes-Benz Cars makes a continual effort to reduce the fuel consumption of its vehicles while enhancing their performance – and thus increasing driving enjoyment and safety. As early as 2015, we were able to reduce the CO₂ emissions of newly registered vehicles from Mercedes-Benz Cars in the European Union to an average of 123 g/km. This means we achieved our 2016 target of 125 g/km ahead of schedule. We were able to maintain the figure of 123 g/km in 2016 as well, despite the fact that our sales structure in the European Union shifted to a higher proportion of mid-sized and large vehicles. This achievement was made possible by technical innovation. We further reduced the CO₂ emissions of the individual models through continual improvements to our combustion engines and the use of extremely efficient hybrid drive systems. Our efforts are supported here by new and very economical models with lightweight designs and significantly improved aerodynamics, allowing us to exploit further fuel-saving potential. [page 130](#)

Daimler Trucks

In financial year 2016, the focus at Daimler Trucks was on megatrends of the future: connectivity and electric drive. With the Mercedes-Benz Urban eTruck and the third-generation FUSO eCanter, we presented new, locally emission-free vehicles for urban transport. Other topics included digital services such as Mercedes-Benz Uptime and the Fleetboard Store for apps. In this way, we once again underscored our ambition as a technology leader. We systematically strengthened our global presence with our new sales and service organization for commercial vehicles in major growth regions. And we continued to push forward with the use of intelligent platforms in 2016 with the newly developed standardized connectivity hardware, the “Truck Data Center.”

C.03

Daimler Trucks

	2016	2015	16/15
€ amounts in millions			Change in %
Revenue	33,187	37,578	-12
EBIT	1,948	2,576	-24
Return on sales (in %)	5.9	6.9	-
Investment in property, plant, and equipment	1,243	1,110	+12
Research and development expenditure thereof capitalized	1,265 57	1,293 26	-2 +119
Production	411,265	506,663	-19
Unit sales	415,108	502,478	-17
Employees (December 31)	78,642	86,391	-9

Business development impacted by contracting markets

Daimler Trucks' unit sales of 415,100 vehicles (2015: 502,500) were significantly below the high level of the previous year. Revenue decreased to €33.2 billion (2015: €37.6 billion) and EBIT fell to €1.9 billion (2015: €2.6 billion). The division's return on sales was 5.9% (2015: 6.9%). Overall, the development of business last year was affected by significant market contraction in many regions. Daimler Trucks is systematically continuing the efficiency-enhancing actions initiated in 2012 with “Daimler Trucks #1.” In order to further strengthen our competitiveness, we will continue optimizing our fixed costs, in particular at the Mercedes-Benz brand. Our goal is to bring Daimler Trucks to the targeted level of profitability.

Unit sales below high prior-year level

Against the backdrop of shrinking truck markets, our unit sales decreased in most of our regions. We sold a total of 415,100 trucks in 2016 (2015: 502,500). There was positive market impetus in the **EU30 region** (European Union, Switzerland and Norway), although with decreasing dynamism in the second half of the year. Our unit sales there increased by 4% to 79,800 vehicles. Our Mercedes-Benz brand maintained its market leadership in the medium- and heavy-duty segment with a share of 21.6% (excluding the United Kingdom) (2015: 22.4%). Our sales in **Turkey** fell by more than 50% to 9,300 units (2015: 24,900). This drastic decline is the result of weaker demand due to the introduction of the Euro VI emission standard at the beginning of 2016 as well as the country's difficult situation.

C.04

Unit sales of Daimler Trucks

	2016	2015	16/15
In thousands			Change in %
Total	415	502	-17
EU30	80	76	+4
thereof Germany	31	32	-2
United Kingdom	8	9	-10
France	8	7	+13
NAFTA region	146	192	-24
thereof United States	122	167	-27
Latin America (excluding Mexico)	27	31	-10
thereof Brazil	12	16	-26
Asia	125	148	-15
thereof Japan	46	46	+2
Indonesia	28	32	-13
<i>For information purposes:</i>			
BFDA (Auman Trucks)	78	69	+13
Total (including BFDA)	493	572	-14



The Mercedes-Benz Urban eTruck: goods transport in the city, emission free and quiet.

Our unit sales in **Latin America** continued to be impacted by the ongoing deep recession in Brazil and were once again significantly lower than in the previous year at 27,500 units (2015: 30,500). In Brazil, our main market in the region, our Mercedes-Benz brand trucks achieved market leadership and increased their share of the medium- and heavy-duty segment to 29.8% (2015: 26.7%). Daimler has been active in Brazil for 60 years and Mercedes-Benz do Brasil is the biggest manufacturer of trucks and buses in Latin America. But in view of the further market contraction, we were obliged to take steps to adjust our production capacities in Brazil, mainly through a program of voluntary severance packages. Irrespective of the currently difficult situation, we believe in the long-term viability of the important Latin American market.

In the **NAFTA region** as well, we were unable to escape the impact of the sharply contracting market for Class 8 trucks. We reacted to the market changes already in the first half of the year and reduced the workforce at our plants in North America. Sales of 145,700 trucks (2015: 191,900) were significantly lower than the unusually high number sold in the previous year. In classes 6–8, we are the market leader by a large margin with a share of 39.3% (2015: 39.4%). In class 8 (heavy-duty trucks), we increased our market share to 40.0% (2015: 39.3%). We are very successful in the North American market, especially with our integrated powertrains. Approximately 95% of the trucks we sold in the heavy-duty segment in the United States and Canada were fitted with our integrated heavy-duty engines. Since last year, the DD5 medium-duty engine produced in Mannheim has also been available for customers in North America. Local production of the DD5 in Detroit for the North American market will

start in 2018. We were able to increase the percentage of Freightliner Cascadia and Western Star 5700 XE trucks fitted with the DT12 automatic transmission in the United States and Canada to approximately 65%. Our Thomas Built Buses brand had its 100th anniversary in the year 2016. Thomas Built Buses is one of the leading manufacturers of school buses in North America.

Our unit sales in **Japan** increased to 46,400 vehicles (2015: 45,600). With the FUSO brand, we increased our share of the overall Japanese truck market to 20.4% (2015: 20.8%). In the **Indonesian** market, which once again contracted sharply, our unit sales fell to 28,000 vehicles (2015: 32,100). But with a 46.7% share of the overall truck market (2015: 48.0%), we continue to be the market leader by a large margin with the FUSO brand. We have further strengthened our strategic position in Indonesia. In the future, our sales partner P.T. Krama Yudha Tiga Berlian Motors (KTB) will focus solely on the sale of FUSO commercial vehicles and will transfer its car business to a separate legal entity. Our Asian subsidiary Mitsubishi Fuso Truck and Bus Corporation (MFTBC) increases its interest in KTB from 18 to 30%. Until now, we have mainly sold light- and medium-duty trucks of the FUSO brand in Indonesia. In addition, our subsidiary P.T. Mercedes-Benz Distribution Indonesia (MBDINA) will also sell new models of heavy-duty Mercedes-Benz trucks in the future; the first deliveries are already planned for the first quarter of 2017. In the medium term, we will produce our trucks from CKD kits at the Mercedes-Benz plant in Wanaherang, Indonesia.



The new FUSO eCanter is already the third generation of the world's first light-duty truck powered solely by electricity.

In **India**, our unit sales of 13,100 trucks were below prior-year level (2015: 14,000); with our BharatBenz trucks, we achieved a market share of 6.8% (2015: 7.3%). Deliveries of the export vehicles produced in Chennai to markets in Asia, Latin America and Africa more than doubled to over 4,000 units in 2016. Meanwhile, more than 30 markets are already supplied with trucks from Chennai. Our sales in the **Middle East** decreased significantly to 17,600 vehicles (2015: 36,300). The main reasons for the sluggish investment there in 2016 were low oil prices and the ongoing conflict in the region.

Daimler Trucks further expands its global presence

In the **NAFTA** and **EU30 regions** (excluding the United Kingdom), Daimler Trucks is already very well positioned as the market leader. We continued to push forward with the regionalization of our sales-and-service organization for the commercial vehicle business in major growth regions. Within seven months, we opened six **regional centers** for the Middle East and North Africa, East, Central and West Africa, Southern Africa, Southeast Asia, Latin America and South Asia. With the new regional centers, we are focusing even more in those regions on the specific local features of the truck business and are therefore even closer to the

customers and markets there. In **China**, the world's biggest truck market, Daimler AG has a 50% interest in Beijing Foton Daimler Automotive Co. Ltd. (BFDA), a joint venture with Beijing Foton Motor Co. Ltd. Medium- and heavy-duty trucks of the Auman brand have been produced there since mid-2012. With the recovery of the Chinese truck market in 2016, the joint venture increased its sales of Auman trucks to 77,800 units (2015: 69,200). More than 380,000 Auman trucks have been sold since the joint venture started operations.

Highly efficient products – today and in the future

With the world premiere of the **Urban eTruck** [page 42](#) in September 2016, Mercedes-Benz Trucks linked the two future topics of digitization and electric mobility and provided an outlook on the connected and fully electric truck of tomorrow. The locally emission-free truck for heavy distribution transport with a gross vehicle weight of up to 26 tons has a battery pack with a total capacity of 212 kilowatt hours, allowing a range of approximately 200 kilometers. Market launch is conceivable early in the next decade. Following the start of a one-year fleet test of five battery-powered **FUSO Canter E-Cell** trucks in Germany in April, we presented the third generation of the world's first purely electric light truck: the new **eCanter** [page 42](#). It benefits from the extensive experience gained during customer tests with the previous generation and will be delivered to customers in Europe, the United States and Japan

in a small series starting this year. We offer improved fuel consumption also with our **Mercedes-Benz series products**. After the further development of the Mercedes-Benz OM 471 engine in 2015, fuel efficiency has now improved again also for the latest generation of the OM 470 engine. The fuel consumption of the Actros with the OM 470 has been reduced by up to 5% as a result of modifications to the engine and drivetrain. And also with the OM 471, the fuel consumption of the Actros can be reduced by up to 6% compared with the previous engine due to engine modifications as well as optimized aerodynamics and drivetrain. In addition, we have pushed forward with our activities relating to the so-called **integrated approach**. Together with trailer manufacturer Krone, Mercedes-Benz presented a highly efficient semi-trailer truck at IAA Commercial Vehicles 2016; its fuel consumption and CO₂ emissions are up to 20% lower than those of a semi-trailer truck of 2014. The optimizations of the **integrated approach** were tested with five customers on the so called Efficiency Run 2016. The integrated approach includes all parties involved with goods transport by road to achieve its CO₂ goals: truck manufacturers, bodybuilders, tire suppliers, logistics companies and political decision makers. The initiative was presented for the first time at IAA Commercial Vehicles 2014.

Mercedes-Benz gets nearer to the vision of accident-free driving

At IAA Commercial Vehicles in September 2016, Mercedes-Benz presented two new safety systems which are unique in the market: **Active Brake Assist 4** is the first system of its kind in the world; it warns the driver of an impending collision with pedestrians and automatically initiates partial braking. Mercedes-Benz is also the first truck manufacturer to launch **Sideguard Assist** with person recognition. It is the first assistance system on the market that protects pedestrians and cyclists from trucks turning left or right. Active Brake Assist 4 and Sideguard Assist have been available for selected models since late 2016.

New products and services relating to connectivity

In September, we presented the new flagship for the heavy-duty class 8: the **Freightliner Cascadia**. The new Cascadia has made significant progress in terms of connectivity, fuel efficiency and safety. With the new connectivity platform, **Detroit Connect Analytics**, customers can access automated analyses of fuel efficiency and safety. Thanks to its aerodynamic design and integrated Detroit powertrain, the new Cascadia achieves fuel efficiency up to 8% better than a 2016 Cascadia Evolution. With the new full-LED system, the new Cascadia offers a significantly larger field of vision in conditions of poor visibility. And the optional safety package Detroit Assurance 4.0 includes Active Brake Assist. Deliveries of the new Freightliner started in January 2017. In order to expand



The new Freightliner Cascadia once again sets standards for connectivity and fuel efficiency.

the range of Detroit Connect connectivity services with new features, Daimler Trucks North America (DTNA) is cooperating with **AT&T and Microsoft**. AT&T will provide its mobile-telephony service for Detroit Connect, and we are cooperating with Microsoft on the development of a new cloud-based back-office environment for Detroit Connect services.

In Europe, we are using intelligent connectivity to increase vehicle availability with the new service product **Mercedes-Benz Uptime**, which has been available in selected markets for the Actros, Arocs and Antos since IAA Commercial Vehicles 2016. Mercedes-Benz Uptime continuously checks vehicle systems and offers customers three key advantages: It can avoid time off the road, makes the management of repairs and maintenance more efficient, and supports the customers' maintenance activities in real time. With the new **FleetBoard Store**, we presented our marketplace for apps at IAA Commercial Vehicles 2016. The platform has been designed to be open so that industry partners such as bodybuilders and app developers can contribute their own apps to make road transport more efficient. The FleetBoard Store is open for customers as of 2017.

Furthermore, Daimler Trucks is pushing forward with the further development of **autonomous driving**. In the first half of 2016, we presented a world premiere of **three autonomously driving Mercedes-Benz trucks licensed for use on public roads**, which connected into a "platoon" via Wi-Fi.  [page 46](#) Autonomous trucks link up with other autonomous trucks on the road to form a platoon. This saves fuel due to the small gaps between the vehicles and the resulting lower wind resistance, as well as reducing the space they need on the highway.

Extension of our platform strategy

In addition to the expansion of global presence and technology leadership, we systematically continued with the roll-out of intelligent platforms and modules in 2016. The platforms for drivetrain components for medium- and heavy-duty engines and automated transmissions have already been launched successfully. In 2016, Daimler Trucks extended its platform strategy to the chassis, which will be used across brands in the Mercedes-Benz Actros and the new Freightliner Cascadia, and to a uniform electric/electronic architecture. With the newly developed connectivity hardware, the **Truck Data Center**, we introduced a standardized component in 2016 that will be applied across our Daimler Trucks brands. The Truck Data Center is the heart of the connected truck where all real-time data is received and transmitted. It is already being applied through Detroit Connect Analytics in the new Freightliner Cascadia and through FleetBoard in Mercedes-Benz trucks. The Truck Data Center will also be installed in FUSO trucks as of spring 2017.

Awards for Daimler Trucks vehicles

Our products received a large number of awards once again last year. In the readers' poll carried out by the ETM publishing house, our trucks **Mercedes-Benz Atego, Antos, Actros and Arocs** took first place in their respective categories. The editors of the trade magazines "Verkehrs-Rundschau" and "Trucker" gave the **Mercedes-Benz Actros 1845** the Green Truck Award 2016. And for the twelfth time in succession, the **Mercedes-Benz Unimog** was voted the best off-road vehicle of the year in the "special vehicles" category by the readers of "Off Road" magazine.

Mercedes-Benz Vans

Mercedes-Benz Vans continued its success story of recent years, setting a new record for unit sales in 2016. The division's earnings also reached an all-time high. Growth was primarily driven by the mid-size segment with the Vito van and the V-Class multipurpose vehicle. The market launches of the V-Class and Vito in China marked new milestones for our "Mercedes-Benz Vans goes global" growth strategy. We are continuing to implement this strategy by expanding our product range to include the new X-Class – the world's first premium pickup. With its future-oriented "adVANce" initiative, Mercedes-Benz Vans is also increasingly transforming itself from a manufacturer of globally successful vans into a provider of holistic system solutions.

New records for unit sales, revenue and EBIT

Mercedes-Benz Vans set a new sales record once again in financial year 2016, with an increase of 12% to 359,100 units. At €12.8 billion, revenue was also significantly higher than in the previous year (2015: €11.5 billion). EBIT rose by 33% to the new record level of €1,170 million.

Continued growth

Mercedes-Benz Vans' products remained very successful in financial year 2016. Our Sprinter, Vito and Citan vans are mainly tailored to commercial customers, while the V-Class is designed primarily for private use.

Unit sales in the EU30 region, our most important market, rose by 13% to 249,900 vans in the year under review. Particularly significant increases were recorded in Italy (+46%), the Netherlands (+27%), Austria (+27%), Sweden (+21%), Spain (+20%) and Poland (+26%), and Mercedes-Benz Vans posted strong growth also in several key European volume markets. In Germany, we set a new sales record with 96,100 units (2015: 88,400). In the United Kingdom, we increased unit sales by 4% to 36,700 vehicles. However, unit sales declined significantly in Russia (-15%) and Turkey (-7%).

At the same time, Mercedes-Benz Vans continued to grow in the NAFTA region, where sales rose sharply to 43,400 units (2015: 40,500). We set a new sales record with 33,700 units (2015: 32,400) in the United States, where the new Metris also contributed to our sales success.

The market environment in Latin America remained difficult during the year under review. Sales in the region fell by 21% to 12,500 units. Sales in China rose by 90% following the successful launch of our new vehicles in the mid-size segment.

C.05

Mercedes-Benz Vans

	2016	2015	16/15
€ amounts in millions			% change
Revenue	12,835	11,473	+12
EBIT	1,170	880	+33
Return on sales (in %)	9.1	7.7	.
Investment in property, plant and equipment	373	202	+85
Research and development expenditure	442	384	+15
thereof capitalized	238	153	+56
Production	368,574	328,129	+12
Unit sales	359,096	321,017	+12
Employees (December 31)	24,029	22,639	+6

C.06

Unit sales by Mercedes-Benz Vans

	2016	2015	16/15
			% change
Total	359,096	321,017	+12
EU30	249,860	221,989	+13
thereof Germany	96,130	88,380	+9
NAFTA region	43,354	40,519	+7
thereof United States	33,749	32,376	+4
Latin America (excluding Mexico)	12,497	15,750	-21
Asia	22,526	11,781	+91
thereof China	13,636	7,178	+90
Other markets	30,859	30,978	-0

We sold a total of 193,400 units of the Sprinter worldwide in 2016 (2015: 194,200). Sales of vehicles in the mid-size segment were significantly higher than in the previous year, totaling 140,800 units in the year under review (2015: 105,100). Sales of Vito models for commercial use rose by 24% to 92,100 vehicles, while sales of the Mercedes-Benz Citan reached 24,900 units (2015: 21,700). The V-Class multipurpose vehicle remains very popular with our customers; sales of the model rose by 58% to 48,700 units in the year under review.

Three million units of the iconic van sold to date: ongoing success of the Sprinter

Mercedes-Benz Vans achieved yet another milestone with its successful Sprinter van in March. Since the model's launch in 1995, we have delivered three million units of the "global van" to customers. The large van is now on the road in more than 130 countries. The large van is now on the road in more than 130 countries. The milestone Sprinter was transformed into a HYMER ML-T premium camper van by Hymer, a Mercedes-Benz Vans bodybuilder partner. The camper van segment is becoming increasingly important for Mercedes-Benz Vans, and the Sprinter is already the number one high-end comfort camper van. It is also increasingly in demand as the base vehicle for partially and fully integrated camper vans.

The three-millionth Sprinter rolled off the line at our Ludwigsfelde plant, which is one of six Sprinter manufacturing facilities worldwide. Ludwigsfelde is also the third-largest van plant in our international production network, and the only European manufacturing facility that builds the open versions of the Sprinter (flatbed trucks and chassis) for use with a wide variety of body types. In February 2016, the plant had its 25th anniversary as a successful manufacturing location for Mercedes-Benz Vans in the former East Germany. A total of more than 700,000 vans were built in Ludwigsfelde between 1991 and the end of 2016.

Our Sprinter remains extremely popular around the world, and especially in North America. So that we can supply customers in North America with the next-generation Sprinter more rapidly and in a more individualized and economical manner in the future, we are currently building a new production plant in North Charleston, South Carolina in the United States. We broke ground for the new facility in July 2016. Mercedes-Benz Vans is investing roughly half a billion dollars in the new van plant and will create up to 1,300 new jobs there.

We are working continually to increase the appeal of the Sprinter for our customers. In April, for example, Mercedes-Benz Vans presented a Sprinter with a higher gross vehicle weight and two new entry-level engine options. The new variant of our bestselling van now has a GVW of up to 5.5 metric tons, which makes it even more attractive to bodybuilders and vehicle conversion specialists. The new entry-level engines have an output of 84 kW/114 hp (fuel consumption in l/100 km: urban 11.0–10.8/extra-urban 7.1–6.9/combined 8.6–8.4; CO₂ emissions in g/km: combined 224–219) and 105 kW/143 hp (fuel consumption in l/100 km: urban 10.0–9.8/extra-urban 7.2–7.1/combined 8.3–8.1; CO₂ emissions in g/km: combined 218–213).

V-Class variety: a sportier and more luxurious multipurpose vehicle

At the beginning of 2016, Mercedes-Benz Vans expanded the wide range of optional equipment for the V-Class once again. With the introduction of the V-Class AMG Line, the multipurpose vehicle now features prominent design elements from the Mercedes-AMG high-performance and sports car brand. The V-Class EXCLUSIVE boasts a broad range of exclusive equipment that raises the style, comfort and functionality of the V-Class to an even higher level.



The Sprinter: Its name defines its category – now with a more powerful basic engine and up to 5.5 tons gross vehicle weight.



Concept X-CLASS: The concept vehicle presented in October 2016 provides an outlook onto the X-Class, which will be launched in late 2017.

Mercedes-Benz Vans goes global: mid-size portfolio now successful also in China

With the launch of the V-Class multipurpose vehicle and the Vito van in China, we have taken another major step forward with our “Mercedes-Benz Vans goes global” growth strategy. Customer deliveries of the V-Class in China began in the spring of 2016, with the Vito following in the fall. As a result, we now offer our complete mid-size vehicle program in the world’s biggest automotive market. Both vehicles are “made in China for China” and manufactured by our local joint venture Fujian Benz Automotive Co., Ltd. (FBAC) in Fuzhou.

Our plant in Vitoria, Spain, is also benefiting from the huge global demand for the V-Class and the Vito. In response to the tremendous sales success enjoyed by the two models, Mercedes-Benz Vans created additional capacity in Vitoria by introducing a third shift at the plant in October. A total of approximately €260 million has been invested in the production of the current generations of the two models in Vitoria.

The Mercedes-Benz X-Class is coming: the world’s first premium pickup for urban lifestyles

With the presentation of two design variants of its Concept X-CLASS in October 2016, Mercedes-Benz Vans provided a clear preview of the world’s first premium pickup – the Mercedes-Benz X-Class. Our pickup will reflect the core Mercedes values in terms of everything from brand-typical design and comfort to handling and safety. We will thus become the first premium manufacturer to take into account changing customer requirements in the global growth segment for mid-size pickups. As a result, the tough one metric-ton model with seating for up to five persons will be the first pickup capable of attracting interest as an urban lifestyle and family vehicle. The X-Class will thus close one of the last gaps in the Mercedes-Benz vehicle lineup. The model will initially be launched in Europe in late 2017. It will then be launched in other core markets such as Argentina, Brazil, South Africa, Australia and New Zealand in 2018.

Mercedes-Benz Vans is a leader in the transformation of the transportation sector

Mercedes-Benz Vans presented its adVANce strategic initiative in September 2016. The division is thus systematically focusing on new, quickly changing customer needs. By 2020, we will have invested some €500 million in digitization, automation and robotics for vans, as well as in innovative mobility solutions. As a result, Mercedes-Benz Vans be transformed from a manufacturer of globally successful vans into a provider of holistic system solutions. These solutions have the potential to make the transportation of goods and passengers even more efficient. They also offer our customers economic benefits and completely new business opportunities. The all-electric and thus locally emission-free “Vision Van” concept vehicle, which was also presented in September, features a fully automatic cargo area and integrated delivery drones, thus embodying the holistic approach we are employing with adVANce. Mercedes-Benz Vans has also announced plans to once again begin series production of a battery-electric van in 2018. Back in 2011, Mercedes-Benz Vans became the first manufacturer to produce an electric van in series production – the Vito E-Cell.

The first concrete measures implemented within the framework of adVANce were the launch of the new Mercedes PRO service brand and the establishment of Mercedes-Benz Vans Mobility GmbH. With Mercedes PRO, Mercedes-Benz Vans is enabling the seamless and efficient integration of numerous service and mobility solutions, and thus setting the standard for services for commercial van customers. The first half of 2017 will see the launch of the Mercedes PRO connect innovative connectivity solution for vehicle fleets. In addition, Mercedes-Benz Vans Mobility GmbH offers holistic mobility services and flexible solutions for the van segment as of 2017.

Daimler Buses

Business development in 2016 was again negatively affected by the difficult economic situation in Latin America, leading to a sharp decrease in unit sales. However, thanks to the positive development of our business with complete buses, we were able to achieve a slight increase in revenue. Earnings significantly surpassed the good level of the prior year, and achieved our target for return on sales of 6%. As the leading bus manufacturer in its traditional core markets, Daimler Buses focuses on innovative and forward-looking city buses and coaches. Our presentation of the Mercedes-Benz Future Bus in 2016 marked a new milestone on our path to the mobility of the future.

C.07

Daimler Buses

	2016	2015	16/15
€ amounts in millions			% change
Revenue	4,176	4,113	+2
EBIT	249	214	+16
Return on sales (in %)	6.0	5.2	.
Investment in property, plant and equipment	97	104	-7
Research and development expenditure	202	184	+10
thereof capitalized	11	13	-15
Production	26,180	29,092	-10
Unit sales	26,226	28,081	-7
Employees (December 31)	17,899	18,147	-1

Earnings significantly above the prior-year level

Daimler Buses sold 26,200 buses and bus chassis worldwide in financial year 2016 (2015: 28,100). This significant decrease in unit sales was largely due to the ongoing poor economic situation in Brazil. Nevertheless, the division was able to maintain its clear leading position in its traditional core markets, i.e. the EU30 region, Brazil, Turkey, Argentina and Mexico. Sales of complete buses in the EU30 region were once again higher than in the prior year. Revenue rose slightly from the prior year (+2%), while EBIT increased substantially to €249 million (2015: €214 million).

Varied business development in core regions

In the EU30 region, the Daimler Buses brands Mercedes-Benz and Setra offer a full range of city buses, intercity buses and coaches, as well as bus chassis. Thanks to a significant improvement in our business with complete buses, sales in the region increased by 3% to 8,800 units. Strong demand for our Mercedes-Benz and Setra buses led to an increase in sales in Germany to 3,100 units (2015: 2,800). Daimler Buses also further expanded its leading position in the EU30 region with a market share of 29.7% (2015: 29.5%). At 600 units, sales in Turkey were significantly lower than in the prior year (2015: 1,000) due to the difficult situation in that country. The ongoing economic difficulties in Latin America (excluding Mexico), especially in Brazil, led to a significant further deterioration in the region, with the Brazilian bus market reaching its lowest point for many years in 2016. Sales of Mercedes-Benz bus chassis in Brazil declined by double digits once again (-32%) to 4,900 units. Nonetheless, we were able to significantly expand our leading position in Brazil to a market share of 58.4% (2015: 52.5%). At 3,800 units (2015: 4,000), sales in Mexico were slightly lower than in the previous year.

C.08

Unit sales by Daimler Buses

	2016	2015	16/15
			% change
Total	26,226	28,081	-7
EU30	8,838	8,573	+3
thereof Germany	3,063	2,787	+10
Latin America (excluding Mexico)	9,837	11,909	-17
thereof Brazil	4,937	7,216	-32
Mexico	3,780	3,964	-5
Asia	1,759	1,030	+71
Other markets	2,012	2,605	-23



The ComfortClass 500 from the Setra brand stands for a versatile bus concept meeting high requirements in terms of economy, safety and flexibility in an exemplary manner.



The Mercedes-Benz Citaro NGT powered by natural gas features significantly reduced CO₂ emissions. When running on organic natural gas, it is virtually CO₂ neutral.

Daimler Buses is a pioneer in autonomous driving

Daimler Buses, a leading provider of mobility solutions, achieved a major milestone on the road to autonomous urban driving in 2016. In July, the Mercedes-Benz Future Bus with CityPilot drove partially autonomously for the first time on a public road that is part of the BRT (Bus Rapid Transit) route in Amsterdam. The key technical component of the Future Bus is the CityPilot, which is based on the Highway Pilot system presented two years ago in the autonomous version of the Mercedes-Benz Actros truck. Highway Pilot technology was extensively enhanced for the specific application in a city bus, and several new features were added. With its numerous cameras and sensors, the city bus can recognize and communicate with traffic lights, can brake and accelerate on its own, react autonomously to obstacles and pedestrians, and drive up to bus stops. Through this intelligent networking of assistance systems, Daimler Buses has been able to improve the efficiency of city buses, notably by lowering their fuel consumption. In addition, the networked technology makes things easier for bus drivers in stressful city traffic and also enhances safety. The Future Bus thus marks another step toward the vision of accident-free driving. With this forward-looking design, integrated infotainment systems and e-ticketing solutions, Daimler Buses is also demonstrating how city buses can be made even more attractive and comfortable for passengers. Daimler Buses will invest approximately €200 million in the further development of its city bus lineup between now and 2020.

Expansion of innovative services

Daimler Buses will continue expanding its range of innovative services that offer real added value to customers. Our goal is to reduce downtime and maintenance requirements and optimize the total cost of ownership even further. With this in mind, Daimler Buses established a new unit known as Mobility Solutions in 2016. The new team is responsible for the further development of existing business models, as well as the development of entirely new mobility solutions for the international bus business. The team also addresses the challenges faced by the passenger transport sector as a result of trends such as increasing urbanization and drive-system electrification.

Innovations at IAA Commercial Vehicles 2016

At the trade exhibition IAA Commercial Vehicles 2016, Daimler Buses presented a comprehensive range of solutions for future bus mobility as provided by its Mercedes-Benz and Setra product brands and its OMNIplus and BusStore service brands. Along with the partially autonomous Mercedes-Benz Future Bus with CityPilot, the highlights included the natural-gas powered Mercedes-Benz Citaro NGT city bus and a new locally manufactured Mercedes-Benz school bus for the Indian market. The IAA presentation also focused on innovative services such as a new tele-diagnosis system for the 24-hour service program, which can significantly reduce downtime in the event of a breakdown.

Further efficiency gains and the roadmap for alternative drive systems

Daimler Buses has been able to further improve the fuel efficiency and environmental compatibility of its products through the use of innovative technologies. We are working continually on the further optimization of the combustion engine. Fuel savings of up to 8% have already been achieved through the launch of Euro VI bus models. And use of the latest generation of the OM 470 and OM 471 diesel engines, as well as vehicle-related measures, have led to a further reduction in fuel consumption and CO₂ emissions of up to 4%. The Mercedes-Benz Citaro NGT natural-gas city bus represents another milestone on the road to emission-free driving. The CO₂ emissions of the Mercedes-Benz natural-gas engine are up to 10% lower than those produced by a diesel engine. When organic natural gas is used as fuel, the bus is virtually CO₂ neutral, with emissions well below the limits stipulated by the Euro VI emissions standard in some cases. Daimler Buses also continues to implement its roadmap for alternative drive systems. Among other things, the roadmap calls for the launch of series production of the Citaro E-Cell electric city bus in 2018. Daimler Buses is also developing a holistic system for providing customers with advice on electric mobility issues. The goal here is to offer customers products that are perfectly tailored to their needs and to local aspects such as existing infrastructure, route arrangements, topography and vehicle-range requirements.

New Mercedes-Benz Travego coach with an efficient combustion engine

In 2016, Daimler Buses presented a new forward-looking coach for the Turkish market – the Mercedes-Benz Travego 15 SHD. This new Travego has a length of 12 meters and can accommodate 46 passengers. The bus is powered by an OM 470 Euro VI engine with Bluetec technology. This engine is more efficient than previous engine models and also further reduces both exhaust gas emissions and fuel consumption. In addition, the new Travego underscores Daimler Buses' technology leadership in the area of accident-free driving, as the coach features numerous safety systems as standard equipment, including AEBS 3 (anticipatory emergency braking system), ACC (Adaptive Cruise Control), SPA (Lane Assistant) and FCG (Front Collision Guard).

Numerous awards for Daimler Buses

At the end of the year under review, the Mercedes-Benz Future Bus received the Sustainability Award 2017 from the *busplaner* trade journal in the category Technology/Urban Regular-Service Bus. The award is presented to manufacturers with outstanding products and ideas that make a verifiable contribution to environmental protection and thus to sustainability around the world. In addition, a reader survey conducted by EuroTransportMedia-Verlag resulted in first-place finishes for the Mercedes-Benz Citaro in the Urban Regular-Service Bus category and for the Mercedes-Benz Tourismo in the Midibus category. The Setra TopClass 500 HDH came out on top in the High-deck Coach Category. Finally, Daimler Buses Latin America was presented with the 2016 Latin American Bus and Coach Chassis Price/Performance Value Leadership award by the Frost & Sullivan corporate consulting firm.

Daimler Financial Services

The number of cars and commercial vehicles financed or leased by Daimler Financial Services reached a new all-time high of more than 4.3 million at the end of financial year 2016. New business and contract volume also rose once again, and the combination of sales financing with brokered automotive insurance policies continued to gain in importance as well. During the year under review, we further expanded our range of innovative mobility services. car2go increased its customer base to more than 2.2 million in 2016, while mytaxi, after merging with Hailo, now has approximately six million customers and more than 100,000 drivers in its taxi network, which is the largest in Europe.

Nearly half of all vehicles delivered to customers are financed or leased by Daimler Financial Services

During the year under review, Daimler Financial Services concluded 1.6 million new financing and leasing contracts worth a total of €61.8 billion. The total value of all new contracts rose by 7% compared with the previous year. The sales and leasing activities at Daimler Financial Services supported approximately half of all new-vehicle sales by our automotive divisions in 2016. More than 4.3 million financed or leased vehicles were on the books at the end of 2016; this corresponds to a 14% increase in contract volume to €132.6 billion. The acquisition of Athlon Car Lease International accounted for €3.7 billion of the increase in contract volume. Adjusted for Athlon and exchange-rate effects, the increase amounted to 10%. EBIT rose to a new high of €1,739 million (2015: €1,619 million). ↗ **C.09**

Significant increase in new business in Europe

During the year under review, Daimler Financial Services concluded approximately 840,900 new financing and leasing contracts worth €26.9 billion (+9%) in the Europe region. Particularly high rates of growth were recorded in Spain (+29%) and Italy (+25%). In Germany, Mercedes-Benz Bank's new business increased by 11% to €11.9 billion; the volume of deposits in the direct banking business totaled €11.5 billion (+11%). During the year under review, Daimler Financial Services' total contract volume in Europe rose by 17% to €53.4 billion; this development was due in part to the acquisition of Athlon Car Lease International.

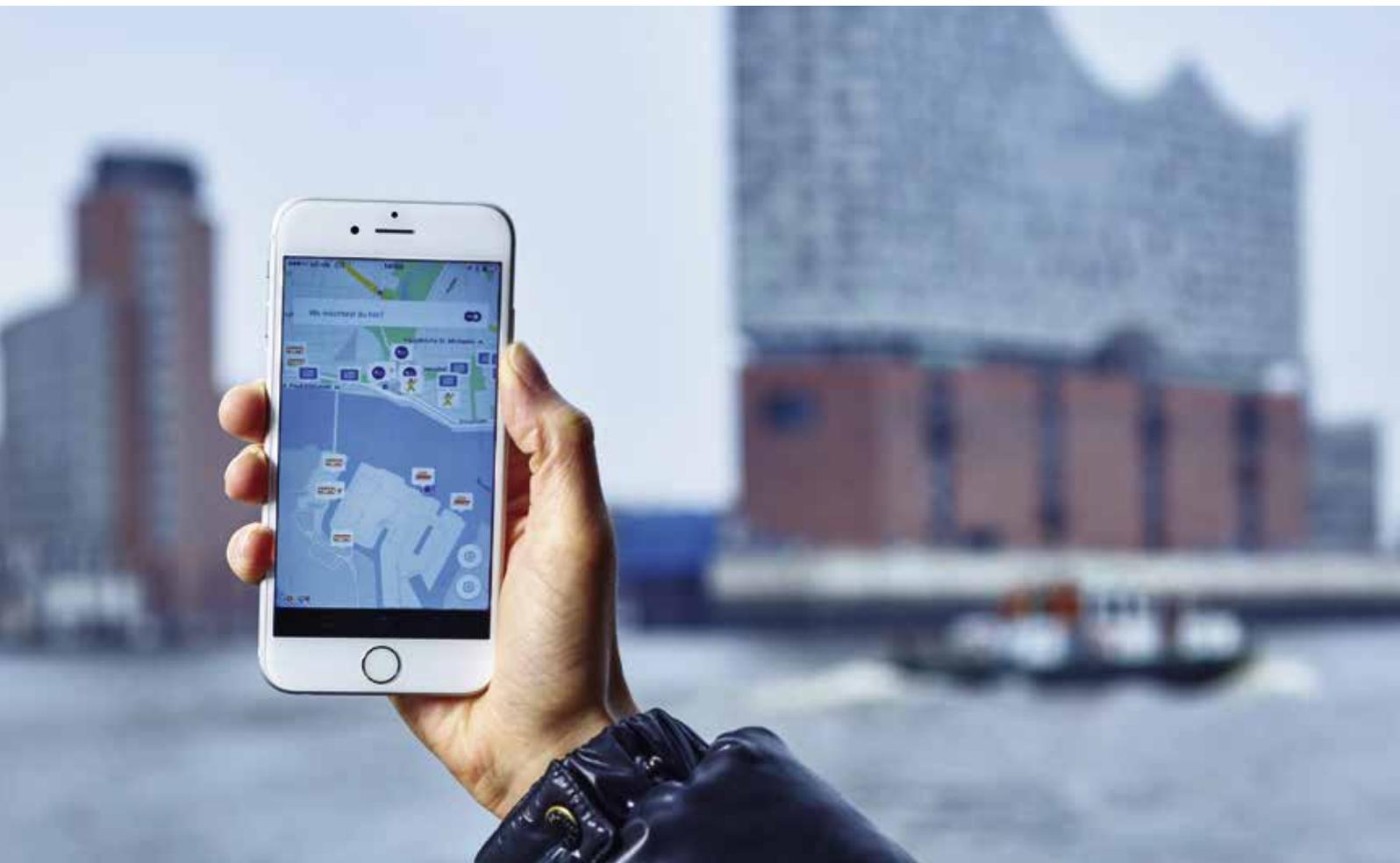
Slight decrease in new business in North and South America

Daimler Financial Services brokered about 447,200 new financing and leasing contracts worth €21.5 billion in North and South America in 2016 (-2%). New business was thus slightly below the figure for the prior year; this decrease was largely due to a decline in business in Brazil and Argentina. However, business developed very positively in Mexico (+9%). All in all, contract volume in the Americas rose by 7% to €54.2 billion in the year under review.

C.09

Daimler Financial Services

	2016	2015	16/15
€ amounts in millions			% change
Revenue	20,660	18,962	+9
EBIT	1,739	1,619	+7
New business	61,810	57,891	+7
Contract volume	132,565	116,727	+14
Investment in property, plant and equipment	37	30	+23
Employees (December 31)	12,062	9,975	+21



True to the motto of "Mobility at your fingertips," Daimler Financial Services is a leader in the provision of digital mobility services.

Strong growth in new business in Africa & Asia-Pacific region

New business in the Africa & Asia-Pacific region increased sharply once again in the reporting year, by 18% to €13.3 billion. Business development was especially strong in China (+25%) and Japan (+23%). At the end of 2016, contract volume in the Africa & Asia-Pacific region totaled €24.9 billion, which corresponds to a 23% increase over the previous year.

Ongoing high level of insurance business

Daimler Financial Services brokered approximately 1.8 million insurance policies in 2016, in line with the high level of the previous year. Our insurance business continued to be successful in China, where an average of 75% of Daimler vehicles were delivered with an insurance policy brokered by us. In 2016, the newly founded Mercedes-Benz Versicherung AG started with great success in Germany. More than 150,000 warranty-extension contracts were concluded in its first year.

Continued success for mobility services

Daimler Financial Services once again expanded its range of innovative mobility services in 2016. The number of customers using the car2go car sharing service increased to more than 2.2 million, thereby enabling car2go to maintain its position as the world's leading flexible car sharing company. car2go began operating also in China in 2016, and 140,000 customers are now using the service in the metropolis of Chongqing. In addition, car2go has expanded its fleet to include Mercedes-Benz brand vehicles in Berlin, the Rhineland, Munich, Hamburg and Frankfurt.

We also further developed our moovel app in 2016. moovel allows customers in Germany to compare various mobility and transport-system options and then choose the best way to get from point A to point B. The app can also be used to book and directly pay for services provided by companies such as car2go, mytaxi and Deutsche Bahn. In April, Hamburg was integrated into the moovel app as the first city with more than one million inhabitants. moovel users in Hamburg can now book and pay for trips taken throughout the city's entire public transport network. The moovel Group also consolidated its activities in North America in the second quarter of 2016 by merging Globe Sherpa and RideScout and renaming the merged company moovel North America. With moovel transit, moovel North America is the leading provider of mobile ticket solutions for the apps of public transport companies in the United States. moovel has a total of more than 2.2 million users.

In July 2016, mytaxi and Hailo – two leading app-based taxi ordering services – joined forces to create a new merged company that has linked 100,000 drivers in more than 50 cities and nine countries to create Europe's largest taxi network, which now serves approximately six million customers. The company has its headquarters in Hamburg and operates under the mytaxi brand name. In the third quarter of 2016, Daimler increased its stake in the exclusive Blacklane chauffeur service portal to 31% in order to further expand its global limousine services business. Blacklane currently operates limousine services in approximately 250 cities in more than 50 countries, as well as at 500 airports.

Fleet business expanded through the acquisition of Athlon

Daimler Fleet Management brokered a total of 53,000 new vehicles to commercial fleet customers in 2016, equivalent to growth of 9% compared with the previous year. In addition, Daimler Financial Services invested strategically in the European multi-brand fleet management sector at the beginning of December by acquiring Athlon Car Lease International from the DLL Group, which is part of Rabobank in the Netherlands. At the end of December, Athlon had a contract volume of €3.7 billion and managed 268,000 vehicles. With the acquisition of Athlon, Daimler Financial Services has repositioned itself as a broad-based international provider of multi-brand fleet management services. In the future, all fleet management operations are to be carried out under the Athlon brand name. With the inclusion of the Athlon portfolio, Daimler Financial Services had a total of 361,000 contracts with fleet customers on its books in Europe at the end of 2016.

Focus on customer and employee satisfaction

Customer and employee satisfaction is a top priority at Daimler Financial Services. In 2016, independent surveys once again showed that we are a leader in numerous countries around the world with regard to customers' and dealers' assessments of our service quality. In the United States, Mercedes-Benz Financial Services once again finished at the top in three categories of a J.D. Power study of dealer satisfaction. The basis for these and many other successes is formed by our highly motivated employees. In many countries, Daimler Financial Services also ranked among the top companies in the independent Great Place to Work Institute survey to determine the world's best employers. Daimler Financial Services made it onto the list of the 25 best multinational employers worldwide for the second time in October 2016, finishing in fifth place.

Toll Collect system successfully expanded

The automatic system for truck-toll collection on German autobahns and selected federal highways continued to operate smoothly and reliably in 2016. The system recorded a total of 32.5 billion kilometers driven in the year under review. Daimler Financial Services holds a 45% equity interest in the Toll Collect consortium. The Federal Republic of Germany has collected a total of more than €48 billion in tolls since Toll Collect went into operation at the beginning of 2005. In June 2016, Toll Collect was contracted to develop and implement the required modifications to the existing toll system so that tolls can be collected on all federal highways as of July 2018.



Whether online or in direct dialog – customers of Daimler Financial Services can conveniently find out about financing and leasing offers on all channels.



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.

D | 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](https://www.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](https://www.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 Bremse 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.



We have a sound financial basis

The Consolidated Financial Statements presented as follows have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). They also comply with additional requirements set forth in Section 315a (1) of the German Commercial Code (HGB).

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Consolidated Statement of Income

E.01

		Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
	Note	2016	2015	2016	2015	2016	2015
In millions of euros							
Revenue	4	153,261	149,467	132,601	130,505	20,660	18,962
Cost of sales ¹	5	-121,298	-118,017	-103,600	-101,869	-17,698	-16,148
Gross profit		31,963	31,450	29,001	28,636	2,962	2,814
Selling expenses	5	-12,226	-12,147	-11,577	-11,577	-649	-570
General administrative expenses ¹	5	-3,419	-3,363	-2,702	-2,646	-717	-717
Research and non-capitalized development costs	5	-5,257	-4,760	-5,257	-4,760	-	-
Other operating income	6	2,350	2,114	2,200	1,982	150	132
Other operating expense	6	-1,298	-555	-1,267	-530	-31	-25
Profit/loss on equity method investments, net	13	502	464	503	474	-1	-10
Other financial income/expense, net	7	275	-27	250	-22	25	-5
Interest income	8	230	170	229	169	1	1
Interest expense	8	-546	-602	-540	-595	-6	-7
Profit before income taxes²		12,574	12,744	10,840	11,131	1,734	1,613
Income taxes	9	-3,790	-4,033	-3,235	-3,488	-555	-545
Net profit		8,784	8,711	7,605	7,643	1,179	1,068
thereof profit attributable to non-controlling interests		258	287				
thereof profit attributable to shareholders of Daimler AG		8,526	8,424				
Earnings per share (in euros)							
for profit attributable to shareholders of Daimler AG	35						
Basic		7.97	7.87				
Diluted		7.97	7.87				

1 In the industrial business, €347 million was reclassified from general administrative expenses into cost of sales in the year 2015 (Note 5).

2 The reconciliation of Group EBIT to profit before income taxes is presented in Note 33.

Consolidated Statement of Comprehensive Income/Loss¹

E.02

	Daimler Group	Shareholders of Daimler AG	Non- controlling interests	Daimler Group	Shareholders of Daimler AG	Non- controlling interests
	2016	2016	2016	2015	2015	2015
In millions of euros						
Net profit	8,784	8,526	258	8,711	8,424	287
Currency translation adjustments	696	697	-1	1,437	1,370	67
Financial assets available-for-sale						
Unrealized gains/losses (pre-tax)	-448	-448	-	670	669	1
Reclassifications to profit and loss (pre-tax)	-621	-621	-	-	-	-
Taxes on unrealized gains/losses and on reclassifications	1	1	-	-8	-8	-
Financial assets available-for-sale (after tax)	-1,068	-1,068	-	662	661	1
Derivative financial instruments						
Unrealized gains/losses (pre-tax)	123	126	-3	-3,770	-3,775	5
Reclassifications to profit and loss (pre-tax)	1,512	1,512	-	2,849	2,849	-
Taxes on unrealized gains/losses and on reclassifications	-495	-496	1	278	279	-1
Derivative financial instruments (after tax)	1,140	1,142	-2	-643	-647	4
Equity-method investments						
Unrealized gains/losses (pre-tax)	-12	-12	-	-3	-3	-
Equity-method investments (after tax)	-12	-12	-	-3	-3	-
Items that may be reclassified to profit/loss	756	759	-3	1,453	1,381	72
Actuarial gains/losses from pensions and similar obligations (pre-tax)	-1,994	-1,994	-	3,280	3,280	-
Taxes on actuarial gains/losses from pensions and similar obligations	748	748	-	-579	-579	-
Actuarial gains/losses from pensions and similar obligations (after tax)	-1,246	-1,246	-	2,701	2,701	-
Items that will not be reclassified to profit/loss	-1,246	-1,246	-	2,701	2,701	-
Other comprehensive income/loss, net of taxes	-490	-487	-3	4,154	4,082	72
Total comprehensive income	8,294	8,039	255	12,865	12,506	359

¹ See Note 20 for other information on comprehensive income/loss.

Consolidated Statement of Financial Position

E.03

		Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
	Note	At December 31, 2016	At December 31, 2015	At December 31, 2016	At December 31, 2015	At December 31, 2016	At December 31, 2015
In millions of euros							
Assets							
Intangible assets	10	12,098	10,069	11,199	9,847	899	222
Property, plant and equipment	11	26,381	24,322	26,314	24,262	67	60
Equipment on operating leases	12	46,942	38,942	17,433	15,864	29,509	23,078
Equity-method investments	13	4,098	3,633	4,043	3,610	55	23
Receivables from financial services	14	42,881	38,359	-76	-58	42,957	38,417
Marketable debt securities	15	1,100	1,148	1	1	1,099	1,147
Other financial assets	16	2,899	4,908	-3,043	-536	5,942	5,444
Deferred tax assets	9	3,870	3,284	3,128	2,747	742	537
Other assets	17	667	654	-2,642	-2,371	3,309	3,025
Total non-current assets		140,936	125,319	56,357	53,366	84,579	71,953
Inventories	18	25,384	23,760	24,426	22,862	958	898
Trade receivables	19	10,614	9,054	8,977	8,215	1,637	839
Receivables from financial services	14	37,626	35,155	-11	-24	37,637	35,179
Cash and cash equivalents		10,981	9,936	8,751	8,369	2,230	1,567
Marketable debt securities	15	9,648	7,125	9,497	6,998	151	127
Other financial assets	16	2,837	2,546	-8,002	-7,435	10,839	9,981
Other assets	17	4,962	4,271	1,151	952	3,811	3,319
Total current assets		102,052	91,847	44,789	39,937	57,263	51,910
Total assets		242,988	217,166	101,146	93,303	141,842	123,863
Equity and liabilities							
Share capital		3,070	3,070				
Capital reserves		11,744	11,917				
Retained earnings		40,794	36,991				
Other reserves		2,342	1,583				
Treasury shares		-	-				
Equity attributable to shareholders of Daimler AG		57,950	53,561				
Non-controlling interests		1,183	1,063				
Total equity	20	59,133	54,624	48,685	44,752	10,448	9,872
Provisions for pensions and similar obligations	22	9,034	8,663	8,875	8,546	159	117
Provisions for income taxes		966	875	964	874	2	1
Provisions for other risks	23	6,632	6,120	6,461	5,994	171	126
Financing liabilities	24	70,398	59,831	19,029	18,805	51,369	41,026
Other financial liabilities	25	3,327	2,876	2,721	2,301	606	575
Deferred tax liabilities	9	3,467	2,215	-941	-1,363	4,408	3,578
Deferred income	26	5,559	4,851	4,605	4,144	954	707
Other liabilities	27	15	30	15	30	-	-
Total non-current liabilities		99,398	85,461	41,729	39,331	57,669	46,130
Trade payables		11,567	10,548	10,853	10,182	714	366
Provisions for income taxes		751	777	604	709	147	68
Provisions for other risks	23	9,427	9,710	8,864	9,204	563	506
Financing liabilities	24	47,288	41,311	-20,480	-21,417	67,768	62,728
Other financial liabilities	25	9,542	9,484	6,924	7,133	2,618	2,351
Deferred income	26	3,444	2,888	2,283	1,886	1,161	1,002
Other liabilities	27	2,438	2,363	1,684	1,523	754	840
Total current liabilities		84,457	77,081	10,732	9,220	73,725	67,861
Total equity and liabilities		242,988	217,166	101,146	93,303	141,842	123,863

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows¹

E.04

	Consolidated		Industrial Business (unaudited additional information)		Daimler Financial Services (unaudited additional information)	
	2016	2015	2016	2015	2016	2015
In millions of euros						
Profit before income taxes	12,574	12,744	10,840	11,131	1,734	1,613
Depreciation and amortization/impairments	5,478	5,384	5,398	5,316	80	68
Other non-cash expense and income	-1,064	-450	-1,113	-522	49	72
Gains (-)/losses (+) on disposals of assets	-46	-229	-28	-228	-18	-1
Change in operating assets and liabilities						
Inventories	-1,272	-2,613	-1,356	-2,597	84	-16
Trade receivables	-962	-205	-697	-193	-265	-12
Trade payables	757	142	581	111	176	31
Receivables from financial services	-6,848	-10,251	194	33	-7,042	-10,284
Vehicles on operating leases	-4,209	-3,924	-132	-135	-4,077	-3,789
Other operating assets and liabilities	2,253	2,197	1,753	1,534	500	663
Income taxes paid/refunded	-2,950	-2,573	-2,797	-2,715	-153	142
Cash used for/provided by operating activities	3,711	222	12,643	11,735	-8,932	-11,513
Additions to property, plant and equipment	-5,889	-5,075	-5,852	-5,045	-37	-30
Additions to intangible assets	-2,944	-2,261	-2,868	-2,186	-76	-75
Proceeds from disposals of property, plant and equipment and intangible assets	366	495	338	480	28	15
Acquisition of Athlon Car Lease International B.V.	-3,650	-	-	-	-3,650	-
Investments in shareholdings	-334	-1,223	-277	-1,179	-57	-44
Proceeds from disposals of shareholdings	79	39	61	-89	18	128
Acquisition of marketable debt securities	-7,724	-4,101	-7,592	-4,090	-132	-11
Proceeds from sales of marketable debt securities	5,394	2,443	5,281	2,193	113	250
Other	36	-39	6	-20	30	-19
Cash used for/provided by investing activities	-14,666	-9,722	-10,903	-9,936	-3,763	214
Change in short-term financing liabilities	503	36	326	-157	177	193
Additions to long-term financing liabilities	50,723	54,332	23,730	21,647	26,993	32,685
Repayment of long-term financing liabilities	-35,463	-41,904	-14,180	-13,375	-21,283	-28,529
Dividend paid to shareholders of Daimler AG	-3,477	-2,621	-3,477	-2,621	-	-
Dividends paid to non-controlling interests	-201	-274	-197	-264	-4	-10
Proceeds from the issue of share capital	65	89	30	27	35	62
Acquisition of treasury shares	-38	-27	-38	-27	-	-
Acquisition of non-controlling interests in subsidiaries	-103	-	-103	-	-	-
Internal equity and financing transactions	-	-	-7,444	-7,152	7,444	7,152
Cash used for/provided by financing activities	12,009	9,631	-1,353	-1,922	13,362	11,553
Effect of foreign exchange rate changes on cash and cash equivalents	-9	138	-5	151	-4	-13
Net increase in cash and cash equivalents	1,045	269	382	28	663	241
Cash and cash equivalents at beginning of period	9,936	9,667	8,369	8,341	1,567	1,326
Cash and cash equivalents at end of period	10,981	9,936	8,751	8,369	2,230	1,567

¹ See Note 28 for other information on consolidated statements of cash flows.

Consolidated Statement of Changes in Equity¹

E.05

	Share capital	Capital reserves	Retained earnings ²	Currency translation	Financial assets available for sale
In millions of euros					
Balance at January 1, 2015	3,070	11,906	28,487	775	460
Net profit	-	-	8,424	-	-
Other comprehensive income/loss before taxes	-	-	3,280	1,370	669
Deferred taxes on other comprehensive income	-	-	-579	-	-8
Total comprehensive income/loss	-	-	11,125	1,370	661
Dividends	-	-	-2,621	-	-
Capital increase/Issue of new shares	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-
Issue and disposal of treasury shares	-	-	-	-	-
Other	-	11	-	-	-
Balance at December 31, 2015	3,070	11,917	36,991	2,145	1,121
Balance at January 1, 2016	3,070	11,917	36,991	2,145	1,121
Net profit	-	-	8,526	-	-
Other comprehensive income/loss before taxes	-	-	-1,994	697	-1,069
Deferred taxes on other comprehensive income	-	-	748	-	1
Total comprehensive income/loss	-	-	7,280	697	-1,068
Dividends	-	-	-3,477	-	-
Capital increase/Issue of new shares	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-
Issue and disposal of treasury shares	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	-170	-	-	-
Other	-	-3	-	-	-
Balance at December 31, 2016	3,070	11,744	40,794	2,842	53

1 See Note 20 Equity for other information on changes in equity.

2 Retained earnings also include items that will not be reclassified to the consolidated income statement.

Actuarial losses from pensions and similar obligations amount to €7,437 million net of tax in 2016 (2015: €6,191 million net of tax).

Other reserves items that may be reclassified in profit/loss	Share of investments accounted for using the equity method	Treasury share	Equity attributable to shareholders of Daimler AG	Non-controlling interests	Total equity	
In millions of euros						
-1,032	-1	-	43,665	919	44,584	Balance at January 1, 2015
-	-	-	8,424	287	8,711	Net profit
-926	-3	-	4,390	73	4,463	Other comprehensive income/loss before taxes
279	-	-	-308	-1	-309	Deferred taxes on other comprehensive income
-647	-3	-	12,506	359	12,865	Total comprehensive income/loss
-	-	-	-2,621	-274	-2,895	Dividends
-	-	-	-	68	68	Capital increase/Issue of new shares
-	-	-27	-27	-	-27	Acquisition of treasury shares
-	-	27	27	-	27	Issue and disposal of treasury shares
-	-	-	11	-9	2	Other
-1,679	-4	-	53,561	1,063	54,624	Balance at December 31, 2015
-1,679	-4	-	53,561	1,063	54,624	Balance at January 1, 2016
-	-	-	8,526	258	8,784	Net profit
1,638	-12	-	-740	-4	-744	Other comprehensive income/loss before taxes
-496	-	-	253	1	254	Deferred taxes on other comprehensive income
1,142	-12	-	8,039	255	8,294	Total comprehensive income/loss
-	-	-	-3,477	-201	-3,678	Dividends
-	-	-	-	35	35	Capital increase/Issue of new shares
-	-	-38	-38	-	-38	Acquisition of treasury shares
-	-	38	38	-	38	Issue and disposal of treasury shares
-	-	-	-170	35	-135	Changes in ownership interests in subsidiaries
-	-	-	-3	-4	-7	Other
-537	-16	-	57,950	1,183	59,133	Balance at December 31, 2016

Notes to the Consolidated Financial Statements

1. Significant accounting policies

General information

The consolidated financial statements of Daimler AG and its subsidiaries (“Daimler” or “the Group”) have been prepared in accordance with Section 315a of the German Commercial Code (HGB) and comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Daimler AG is a stock corporation organized under the laws of the Federal Republic of Germany. The Company is entered in the Commercial Register of the Stuttgart District Court under No. HRB 19360 and its registered office is located at Mercedesstraße 137, 70327 Stuttgart, Germany.

The consolidated financial statements of Daimler AG are presented in euros (€). Unless otherwise stated, all amounts are stated in millions of euros. All figures shown are rounded in accordance with standard business rounding principles.

The Board of Management authorized the consolidated financial statements for publication on February 10, 2017.

Basis of preparation

Applied IFRSs

The accounting policies applied in the consolidated financial statements comply with the IFRSs required to be applied in the EU as of December 31, 2016.

IFRSs issued, EU endorsed and initially adopted in the reporting period

IFRSs with mandatory initial application in the EU as of January 1, 2016 had no significant impact on the consolidated financial statements.

IFRSs issued, EU endorsed and not yet adopted

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. It replaces existing guidance for revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The new standard lays down a comprehensive framework for determining in which amount and at which date revenue is recognized. The new standard specifies a uniform, five-step model for revenue recognition, which is generally to be applied to all contracts with customers. As a result of IFRS 15, new items are introduced in the statement of financial position: “Contract assets” and “Contract liabilities.” These items can arise through advance payment or advance delivery at the contract level. In addition, disclosure requirements are extended.

Group-wide investigation of the effects on the consolidated financial statements of adopting IFRS 15 has not yet been completed. Effects on Daimler may occur, in particular with regard to the date of recognition of sales incentives and also with regard to the sale of vehicles for which the Group enters into a repurchase obligation or grants a residual-value guarantee. The latter are reported as operating leases. Under IFRS 15, such vehicle sales can necessitate the reporting of a sale with the right of return. The statement of financial position will be changed in particular by the separate presentation of “Contract liabilities.” From today’s perspective, the application of IFRS 15 is not expected to have any major impact on the Group’s profitability, liquidity and capital resources or financial position.

Application of IFRS 15 is mandatory at the latest for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. Daimler will apply IFRS 15 for the first time for the financial year beginning on January 1, 2018. Daimler currently plans for the first-time application to be retrospectively so that the comparative period is presented according to IFRS 15.

In July 2014, the IASB published **IFRS 9 Financial Instruments**, which replaces IAS 39. IFRS 9 includes a uniform model for classification and measurement methods (including impairments) for financial instruments. It also includes regulations for general hedge accounting. IFRS 9 requires additional notes disclosure, resulting from the amendment to IFRS 7 Financial Instruments – Disclosures.

Examination of the effects on the consolidated financial statements of applying IFRS 9 is not yet completed. Effects can result in particular from the fact that the new regulations for recognizing impairments also include expected future losses, whereas IAS 39 only requires the recognition of impairments that have already occurred. Especially receivables from financial services in the Daimler Financial Services segment can be affected.

In the future, all equity instruments are to be measured at fair value through profit or loss or at fair value through other comprehensive income. If changes in carrying amounts are recognized in other comprehensive income, they are no longer to be reclassified to profit or loss when these instruments are sold. Possible effects can be in sharp fluctuations in carrying amounts and fluctuations in the income statement and/or the statement of other comprehensive income.

Additional effects can result from the possibility to exclude certain components of derivatives from designation to a hedging instrument and to recognize the changes in these components' fair value in other comprehensive income. This change applies for example to the fair value of options whose changes in carrying amounts are regularly remeasured through profit and loss during the term of the options according to IAS 39.

Daimler will apply IFRS 9 for the first time for the financial year beginning on January 1, 2018. Daimler currently plans, in compliance with the transitional regulations, not to adjust the prior-year figures and to present the accumulated transitional effects in retained earnings. One exception to this is the recognition through other comprehensive income of the non-designated portion of derivatives, which is to be applied retrospectively to the comparative figures. Overall, Daimler does not currently anticipate any material impact on the Group's profitability, liquidity and capital resources or financial position from the transition to IFRS 9.

IFRSs issued but neither EU endorsed nor yet adopted

In January 2016, the IASB published **IFRS 16 Leases**, replacing IAS 17 and IFRIC 4 and other interpretations. IFRS 16 abolishes for lessees the previous classification of leasing agreements as either operating or finance leases. Instead, IFRS 16 introduces a single lessee accounting model, requiring lessees to recognize assets for the right to use as well as leasing liabilities for leases with a term of more than twelve months. This means that leases that were previously not reported will have to be reported in the future – very similar to the current accounting of finance leases. Lease accounting for lessors has been taken over almost identically from IAS 17 into IFRS 16.

IFRS 16 is to be applied to annual reporting periods beginning on or after January 1, 2019; early adoption is permitted if IFRS 15 is already applied.

The effects on the consolidated financial statements of the application of IFRS 16 are currently being examined. Daimler will probably apply IFRS 16 for the first time for the financial year beginning on January 1, 2019. A decision on the alternatives allowed for by the standard for the transition to IFRS 16, with full or partial retrospective effect, has not yet been taken.

Other IFRSs issued but not EU endorsed are not expected to have a significant impact on the Group's profitability, liquidity and capital resources or financial position.

Presentation

Presentation in the consolidated statement of financial position differentiates between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are expected to be realized or settled within one year or within a longer and normal operating cycle. Deferred tax assets and liabilities as well as assets and provisions for pensions and similar obligations are generally presented as non-current items.

The consolidated statement of income is presented using the cost-of-sales method.

The Group's consolidated financial statements are significantly influenced by the activities of its financial services business. To enhance readers' understanding of the Group's profitability, liquidity and capital resources and financial position, unaudited information with respect to the Group's industrial and financial services business activities (Daimler Financial Services) is provided in addition to the audited consolidated financial statements. Such information is not required by IFRS and is not intended to, and does not represent the separate IFRS profitability, liquidity and capital resources and financial position of the Group's industrial or financial services business activities. Eliminations of the effects of transactions between the industrial and financial services businesses have generally been allocated to the industrial business columns.

Measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of certain items such as available-for-sale financial assets, derivative financial instruments, hedged items, and pensions and similar obligations. The measurement models applied to those exceptions are described below.

Principles of consolidation

The consolidated financial statements include the financial statements of Daimler AG and the financial statements of all subsidiaries, including structured entities which are directly or indirectly controlled by Daimler AG. Control exists if the parent company has the power of decision over a subsidiary based on voting rights or other rights, if it participates in positive and negative variable returns from a subsidiary, and if it can affect these returns by its power of decision.

Structured entities which are controlled also have to be consolidated. Accordingly, the assets and liabilities remain in the consolidated statement of financial position. Structured entities are entities which have been designed so that voting or similar rights are not relevant in deciding who controls the entity. This is the case for example if voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The financial statements of consolidated subsidiaries which are included in the consolidated financial statements are generally prepared as of the reporting date of the consolidated financial statements. The financial statements of Daimler AG and its subsidiaries included in the consolidated financial statements are prepared using uniform recognition and measurement principles. All intercompany assets and liabilities, equity, income and expenses as well as cash flows from transactions between consolidated entities are entirely eliminated in the course of the consolidation process.

Business combinations are accounted for using the purchase method.

Changes in equity interests in Group subsidiaries that reduce or increase Daimler's percentage ownership without loss of control are accounted for as an equity transaction between owners.

Investments in associated companies, joint ventures or joint operations

An associated company is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Associated companies are generally accounted for using the equity method.

For entities over which Daimler has joint control together with a partner (joint arrangements), it is necessary to differentiate whether a joint operation or a joint venture exists. In a joint venture, the parties that have joint control of the arrangement have rights to the net assets of the arrangement. For joint ventures, the equity method has to be applied. A joint operation exists when the jointly controlling parties have direct rights to the assets and obligations for the liabilities. In this case, the prorated assets and liabilities and the prorated income and expenses are generally to be recognized (proportionate consolidation). Joint operations that have no significant impact on the consolidated financial statements are generally accounted for using the equity method.

In the special event that the financial statements of associated companies, joint ventures or joint operations should not be available in good time, the Group's proportionate share of the results of operations is included in Daimler's consolidated financial statements with a one to three-month time lag. Significant events or transactions are accounted for without a time lag, however (see also Note 13).

Subsidiaries measured at amortized cost

Subsidiaries, associated companies, joint ventures and joint operations whose business is non-active or of low volume and that individually and in sum are not material for the Group and the fair presentation of financial position, liquidity and capital resources, and profitability are generally measured at amortized cost in the consolidated financial statements.

Foreign currency translation

Transactions in foreign currency are translated at the relevant foreign exchange rates prevailing at the transaction date. In subsequent periods, assets and liabilities denominated in foreign currency are translated into euros using period-end exchange rates; gains and losses from this measurement are recognized in profit and loss (except for gains and losses resulting from the translation of available-for-sale equity instruments, which are recognized in other comprehensive income/loss).

Assets and liabilities of foreign companies for which the functional currency is not the euro are translated into euros using period-end exchange rates. The translation adjustments are presented in other comprehensive income/loss. The components of equity are translated using historical rates. The statements of income and cash flows are translated into euros using average exchange rates during the respective periods.

The exchange rates of the US dollar, the British pound, the Japanese yen, the Chinese renminbi and the Russian ruble – the most significant foreign currencies for Daimler – were as shown in table [7 E.06](#).

Accounting policies

Revenue recognition

Revenue from sales of vehicles, service parts and other related products is recognized when the risks and rewards of ownership of the goods are transferred to the customer, the amount of revenue can be estimated reliably and collectability is reasonably assured. Revenue is recognized net of sales reductions such as cash discounts and sales incentives granted.

Daimler uses a variety of sales promotion programs dependent on various market conditions in individual countries as well as the respective product life cycles and product-related factors (such as amounts of discounts offered by competitors, excess industry production capacity, the intensity of market competition and consumer demand for the products). These programs comprise cash offers to dealers and customers as well as lease subsidies or loans at reduced interest rates.

Revenue also includes revenue from the rental and leasing business as well as interest from the financial services business at Daimler Financial Services. The revenue from the rental and leasing business results from operating leases and is recognized on a straight-line basis over the periods of the contracts. In addition, sales revenue is generated at the end of lease contracts from the subsequent sale of the vehicles. Revenue from receivables from financial services is recognized using the effective interest method. When loans are issued below market rates, related receivables are recognized at present value and revenue is reduced for the interest incentive granted. If subsidized leasing fees are agreed upon in connection with finance leases, revenue from the sale of a vehicle is reduced by the amount of the interest incentive granted.

The Group offers extended, separately priced warranties for certain products. Revenue from these contracts is deferred and recognized over the contract period in proportion to the costs expected to be incurred based on historical information. In circumstances in which there is insufficient historical information, income from extended warranty contracts is recognized on a straight-line basis. A loss on these contracts is recognized in the current period if the sum of the expected costs for services under the contract exceeds unearned revenue.

For multiple-element arrangements, such as when vehicles are sold with free or reduced-in-price maintenance programs or with free online services, the Group allocates revenue to the various elements based on their estimated fair values.

Research and non-capitalized development costs

Expenditure for research and development that does not meet the conditions for capitalization according to IAS 38 Intangible Assets is expensed as incurred.

Borrowing costs

Borrowing costs are expensed as incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset and are therefore part of the cost of that asset. Depreciation of the capitalized borrowing costs is presented within cost of sales.

Government grants

Government grants related to assets are deducted from the carrying amount of the asset and are recognized in earnings over the life of a depreciable asset as a reduced depreciation expense. Government grants which compensate the Group for expenses are recognized as other operating income in the same period as the expenses themselves.

E.06

Exchange rates

	2016					2015				
	USD	GBP	JPY	CNY	RUB	USD	GBP	JPY	CNY	RUB
	1 € =	1 € =	1 € =	1 € =	1 € =	1 € =	1 € =	1 € =	1 € =	1 € =
Average exchange rate on December 31	1.0541	0.8562	123.4000	7.3202	64.3000	1.0887	0.7340	131.0700	7.0608	80.6736
Average exchange rates during the respective period										
First quarter	1.1020	0.7704	127.0000	7.2101	82.4506	1.1261	0.7434	134.1200	7.0231	70.9608
Second quarter	1.1292	0.7868	121.9500	7.3788	74.3348	1.1053	0.7211	134.2900	6.8572	58.2187
Third quarter	1.1166	0.8497	114.2900	7.4431	72.1154	1.1116	0.7173	135.8600	7.0083	70.3033
Fourth quarter	1.0789	0.8691	117.9200	7.3691	67.9975	1.0953	0.7220	132.9500	7.0003	72.4051

Profit/loss from equity-method investments

This item includes all income and expenses in connection with investments accounted for using the equity method. In addition to the prorated profits and losses from financial investments, it also includes profits and losses resulting from the sale of equity interests or the remeasurement of equity interests following a loss of significant influence. Daimler's share of dilution gains and losses occurring if the Group or other owners do not participate in capital increases of companies in which shares are held and accounted for using the equity method are also included in profit/loss from equity-method investments. This item also includes losses on the impairment of an investment's carrying amount and/or gains on the reversal of such impairments.

Other financial income/expense, net

Other financial income/expense, net includes all income and expense from financial transactions which are not included in interest income and/or interest expense, and for Daimler Financial Services are not included in revenue and/or cost of sales. For example, expense from the compounding of interest on provisions for other risks is recorded in this line item.

Furthermore, income and expenses from equity interests are included in other financial income/expense, net, if such income or expenses are not presented under equity-method investments.

Interest income and interest expense

Interest income and interest expense include interest income from investments in securities, cash and cash equivalents as well as interest expense from liabilities. Furthermore, interest and changes in fair values related to interest rate hedging activities as well as income and expense resulting from the allocation of premiums and discounts are included. The interest components of defined benefit pension obligations and other similar obligations as well as of the plan assets available to cover these obligations are also presented in this line item.

For the segment Daimler Financial Services interest income and expense and gains or losses from derivative financial instruments from financial services business are disclosed under revenue and cost of sales respectively.

Income taxes

Income taxes are comprised of current income taxes and deferred taxes.

Current income taxes are calculated based on the respective local taxable income and local tax rules for the period. In addition, current income taxes presented for the period include adjustments for uncertain tax payments or tax refunds for periods not yet finally assessed including interest expense and penalties on the underpayment of taxes. For the case that amounts included in the tax return might not be realized (uncertain tax positions), a provision for income taxes is recognized. The amount is based on the best possible assessment of the expected tax payment. Tax refund claims from uncertain tax positions are recognized when it is predominantly likely and thus reasonably expected that they can be realized. Only in the case of tax loss carryforwards or unused tax credits, no provision for taxes or tax claim is recognized for these uncertain tax positions. Instead, the deferred tax assets for the unused tax loss carryforwards or tax credits are to be adjusted.

Changes in deferred tax assets and liabilities are generally recognized through profit and loss in deferred taxes in the consolidated statement of income, except for changes recognized in other comprehensive income/loss or directly in equity.

Deferred tax assets or liabilities are calculated on the basis of temporary differences between the tax basis and the financial reporting of assets and liabilities including differences from consolidation, on unused tax loss carryforwards and unused tax credits. Measurement is based on the tax rates expected to be effective in the period in which an asset is recognized or a liability is settled. For this purpose, the tax rates and tax rules are used which have been enacted at the reporting date or are soon to be enacted. Daimler recognizes a valuation allowance for deferred tax assets when it is unlikely that a corresponding amount of future taxable profit will be available against which the deductible temporary differences, tax loss carryforwards and tax credits can be utilized. Deferred tax liabilities for taxable temporary differences in connection with investments in subsidiaries, branches, associates and interests in joint arrangements are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share are calculated by dividing profit attributable to shareholders of Daimler AG by the weighted average number of shares outstanding. As nothing occurred in the years 2016 and 2015 that resulted in any dilution, diluted earnings per share were the same as basic earnings per share in those years.

Intangible assets

Intangible assets acquired are measured at acquisition or manufacturing cost less accumulated amortization. If necessary, accumulated impairment losses are recognized.

Intangible assets with indefinite lives are reviewed annually to determine whether indefinite-life assessment continues to be appropriate. If not, the change in the useful-life assessment from indefinite to finite is made on a prospective basis.

Intangible assets other than development costs with finite useful lives are generally amortized on a straight-line basis over their useful lives (three to ten years). The amortization period for intangible assets with finite useful lives is reviewed at least at each year-end. Changes in expected useful lives are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recorded in functional costs.

Development costs for vehicles and components are recognized if the conditions for capitalization according to IAS 38 are met. Subsequent to initial recognition, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs include all direct costs and allocable overheads and are amortized on a straight-line basis over the expected product life cycle (a maximum of ten years). Amortization of capitalized development costs is an element of manufacturing costs and is allocated to those vehicles and components by which they were generated and is included in cost of sales when the inventory (vehicles) is sold.

Goodwill

For acquisitions, goodwill represents the excess of the consideration transferred over the fair values assigned to the identifiable assets proportionally acquired and liabilities assumed. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

In connection with obtaining control, non-controlling interest in the acquiree is principally recognized at the proportionate share of the acquiree's identifiable assets, which are measured at fair value.

Property, plant and equipment

Property, plant and equipment are measured at acquisition or manufacturing costs less accumulated depreciation. If necessary, accumulated impairment losses are recognized.

The costs of internally produced equipment and facilities include all direct costs and allocable overheads. Acquisition or manufacturing costs include the estimated costs, if any, of dismantling and removing the item and restoring the site.

Property, plant and equipment are depreciated over the useful lives as shown in table [7 E.07](#).

Leasing

Leasing includes all arrangements that transfer the right to use a specified asset for a stated period of time in return for a payment, even if the right to use such asset is not explicitly described in an arrangement. The Group is a lessee of property, plant and equipment and a lessor of its products. It is evaluated on the basis of the risks and rewards of a leased asset whether the ownership of the leased asset is attributed to the lessee (finance lease) or to the lessor (operating lease).

Daimler as lessee

In the case of an operating lease, the lease payments or rental payments are immediately expensed.

Assets carried as finance leases are measured at the beginning of the (lease) contract at the lower of the present value of the minimum lease payments and the fair value of the leased object, and in the following periods less accumulated depreciation and other accumulated impairment losses. Depreciation is on a straight-line basis; residual values of the assets are given due consideration. Payment obligations resulting from future lease payments are discounted and disclosed under financing liabilities.

E.07

Useful lives of property, plant and equipment

Buildings and site improvements	10 to 50 years
Technical equipment and machinery	6 to 25 years
Other equipment, factory and office equipment	3 to 30 years

Sale and lease back

The same accounting principles apply to assets if Daimler sells such assets and leases them back from the buyer.

Daimler as lessor

Operating leases relate to vehicles that the Group produces itself and leases to third parties or to vehicles that the Group sells and grants a buy-back or residual-value guarantee. These vehicles are capitalized at (depreciated) cost of production under leased equipment in the industrial business and are depreciated over the contract term on a straight-line basis with consideration of the expected residual values. Changes in the expected residual values lead either to prospective adjustments of the scheduled depreciation or to an impairment loss if necessary.

Operating leases also relate to Group products that Daimler Financial Services acquires from non-Group dealers or other third parties and leases to end customers. These vehicles are presented at (depreciated) cost of acquisition under leased equipment in the Daimler Financial Services segment. If these vehicles are subsidized, the subsidies are deducted from the cost of acquisition. After revenue is received from the sale to independent dealers, these vehicles generate revenue from lease payments and subsequent resale on the basis of the separate leasing contracts. The revenue received from the sale of these vehicles to the dealers is estimated by the Group as being of the magnitude of the addition to leased equipment at Daimler Financial Services. In 2016, additions to leased equipment at Daimler Financial Services amounted to approximately €13 billion (2015: approximately €12 billion).

In the case of finance leases, the Group presents the receivables in amount of the net investment of the lease agreements under receivables from financial services. The net investment of a lease agreement is the gross investment (future minimum lease payments and non-guaranteed residual value) discounted at the rate upon which the lease agreement is based.

Equity-method investments

On the date of acquisition, a positive difference between cost of acquisition and Daimler's share of the fair values of the identifiable assets and liabilities of the associated company or joint venture is determined and recognized as investor level goodwill. The goodwill is included in the carrying amount of the equity-method investment. With step acquisition of an equity interest by which significant influence or joint control is achieved for the first time, the investment is generally accounted for on the basis of IFRS 3 Business Combinations. This means that the previously held equity interest is remeasured on the date of acquisition; any resulting gain or loss is recognized through profit and loss. If an equity interest in an existing associated company is increased without any resulting change in significant influence, goodwill is determined only for the additionally acquired interest; the previous investment is not remeasured at fair value.

Daimler reviews on each reporting date whether there is any objective indication of impairments or impairments reversal of equity-method investments. If such indications exist, the Group determines the impairment loss or reversal to be recognized. If the carrying amount exceeds the recoverable amount of an investment, the carrying amount is written down to the recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use. An impairment reversal is carried out if there is an objective evidence for an impairment reversal. If such an assessment is made, the recoverable amount is remeasured. The amount of an impairment reversal is limited to the amount by which an asset has been impaired. An impairment or impairment reversal is recognized in the consolidated statement of income under income/loss on equity-method investments; this also includes any gains and/or losses on the sale of equity-method investments.

Interim gains or losses (to be eliminated) from transactions with companies accounted for at-equity are recognized through profit and loss with corresponding adjustments of the investments' carrying amounts.

Impairment of non-current non-financial assets

Daimler assesses at each reporting date whether there is an indication that an asset may be impaired or whether there is an indication that a previously recognized impairment loss may have decreased. If such indication exists, Daimler estimates the recoverable amount of the asset. The recoverable amount is determined for each individual asset unless the asset generates cash inflows that are not largely independent of those from other assets or groups of assets (cash-generating units). In addition, goodwill and other intangible assets with indefinite useful lives are tested annually for impairment; this takes place at the level of the cash-generating units. If the carrying amount of an asset or of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for the difference.

The recoverable amount is the higher of fair value less costs to sell and value in use. For cash-generating units, Daimler in a first step determines the respective recoverable amount as value in use and compares it with the respective carrying amount (including goodwill). The cash-generating units are generally defined as the reporting segments. At Daimler Financial Services, impairment tests have been carried out below the segment level since the year 2016. There is a differentiation between the two cash-generating units Daimler Financial Services Classic (typical financial services business) and Daimler Financial Services Mobility (innovative mobility services).

Value in use is measured by discounting expected future cash flows from the continuing use of the cash-generating units using a risk-adjusted interest rate. Future cash flows are determined on the basis of the long-term planning, which is approved by the Management and which is valid at the date when the impairment test is conducted. This planning is based on expectations regarding future market share, the growth of the respective markets as well as the products' profitability. The multi-year planning comprises a planning horizon until 2023 and therefore mainly covers the product life cycles of our automotive business. The rounded risk-adjusted interest rates used to discount cash flows, which are calculated for each segment, are currently unchanged from the previous year at 8% after taxes for the cash-generating units of the industrial business. For the cash-generating unit Daimler Financial Services Classic, a risk-adjusted interest rate of 9% after taxes is applied (unchanged from the previous year); for Daimler Financial Services Mobility, the risk-adjusted interest rate is 14% after taxes. Whereas the discount rate for the cash-generating unit Daimler Financial Services Classic represents the cost of equity, the risk-adjusted interest rate for the other cash-generating units is based on the weighted average cost of capital (WACC). These are calculated based on the capital asset pricing model (CAPM) taking into account current market expectations. In calculating the risk-adjusted interest rate for impairment test purposes, specific peer group information for beta factors, capital-structure data and cost of debt are used. Periods not covered by the forecast are taken into account by recognizing a residual value (terminal value), which does not consider any growth rates. In addition, several sensitivity analyses are conducted. These show that generally even in the case of more unfavorable premises for main influencing factors with respect to the original planning, no need for impairment exists. If value in use is lower than the carrying amount, fair value less costs to sell is additionally calculated to determine the recoverable amount.

An assessment for assets other than goodwill is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If this is the case, Daimler records a partial or entire reversal of the impairment; the carrying amount is thereby increased to its recoverable amount. However, the increased carrying amount may not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized in prior years.

Non-current assets held for sale and disposal groups

The Group classifies non-current assets or disposal groups as held for sale if the conditions of IFRS 5 Non-current assets held for sale and discontinued operations are fulfilled. In this case, the assets or disposal groups are no longer depreciated but measured at the lower of carrying amount and fair value less costs to sell. If fair value less costs to sell subsequently increases, any impairment loss previously recognized is reversed, this reversal is restricted to the impairment loss previously recognized for the assets or disposal group concerned. The Group generally discloses these assets or disposal groups separately in the consolidated statement of financial position.

Inventories

Inventories are measured at the lower of acquisition or manufacturing cost and net realizable value. The net realizable value is the estimated selling price less any remaining costs to sell. The acquisition or manufacturing costs of inventories are generally based on the specific identification method and include costs incurred in acquiring the inventories and bringing them to their existing location and condition. Costs for large numbers of inventories that are interchangeable are allocated under the average cost formula. In the case of manufactured inventories and work in progress, acquisition or manufacturing cost also includes production overheads based on normal capacity.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately. Financial instruments are recognized as soon as Daimler becomes a party to the contractual provisions of the financial instrument. In the case of purchases or sales of financial assets through the regular market, Daimler uses the transaction date as the date of initial recognition or derecognition.

Upon initial recognition, financial instruments are measured at fair value. For the purpose of subsequent measurement, financial instruments are allocated to one of the categories mentioned in IAS 39 Financial Instruments: Recognition and Measurement. Transaction costs directly attributable to acquisition or issuance are considered by determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Financial assets

Financial assets primarily comprise receivables from financial services, trade receivables, receivables from banks, cash on hand, derivative financial assets and marketable securities and financial investments.

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss include those financial assets designated as held for trading.

Derivatives, including embedded derivatives separated from the host contract, which are not classified as hedging instruments in hedge accounting, as well as shares and marketable debt securities acquired for the purpose of selling in the near term are classified as held for trading. Gains or losses on these financial assets are recognized in profit or loss.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as receivables from financial services or trade receivables. After initial recognition, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the loans and receivables are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in profit or loss.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified in any of the preceding categories. This category includes equity instruments and debt instruments such as government bonds, corporate bonds and commercial paper.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses being recognized in other comprehensive income/loss. If objective evidence of impairment exists or if changes occur in the fair value of a debt instrument resulting from currency fluctuations, these changes are recognized in profit or loss. Upon disposal of financial assets, the accumulated gains and losses recognized in other comprehensive income/loss resulting from measurement at fair value are recognized in profit or loss. If a reliable estimate cannot be made of the fair value of an unquoted equity instrument, such as an investment in a German limited liability company, this instrument is measured at cost (less any impairment losses). Interest earned on available-for-sale financial assets is generally reported as interest income using the effective interest method. Dividends are recognized in profit or loss when the right of payment has been established.

Cash and cash equivalents. Cash and cash equivalents consist primarily of cash on hand, checks and demand deposits at banks, as well as debt instruments and certificates of deposits with a remaining term when acquired of up to three months, which are not subject to any material value fluctuations. Cash and cash equivalents correspond with the classification in the consolidated statement of cash flows.

Impairment of financial assets

At each reporting date, the carrying amounts of financial assets other than those to be measured at fair value through profit or loss are assessed to determine whether there is objective evidence of impairment. Objective evidence may exist for example if a debtor is facing serious financial difficulties or there is a substantial change in the debtor's technological, economic, legal or market environment. For quoted equity instruments, a significant or prolonged decline in fair value is additional objective evidence of possible impairment. Daimler has defined criteria for the significance and duration of a decline in fair value. A decline in fair value is deemed significant if it exceeds 20% of the carrying amount of the investment; a decline is deemed prolonged if the carrying amount exceeds the fair value for a period longer than nine months.

Loans and receivables. If there are objective indications that the value of a loan or receivable has to be impaired, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (excluding expected future credit losses that have not yet been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss.

If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized, the impairment loss recorded in prior periods is reversed and recognized in profit or loss.

In most cases, an impairment loss on loans and receivables (e.g. receivables from financial services including finance lease receivables and trade receivables) is recorded using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable depends on the estimated probability of the loss of receivables.

Available-for-sale financial assets. If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value (less any impairment loss previously recognized in the statement of income) is reclassified from other comprehensive income/loss to the statement of income. Reversals with respect to equity instruments classified as available for sale are recognized in other comprehensive income/loss. Reversals of impairment losses on debt instruments are recognized through the statement of income if the increase in fair value of the instrument can be objectively attributed to an event occurring after the impairment losses were recognized in the consolidated statement of income.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position provided that an enforceable right currently exists to offset the amounts involved, and there is an intention either to carry out the offsetting on a net basis or to settle a liability when the related asset is sold.

Financial liabilities

Financial liabilities primarily include trade payables, liabilities to banks, bonds, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortized cost. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Derivatives (including embedded derivatives separated from the host contract) which are not used as hedging instruments in hedge accounting, are classified as held for trading. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly interest rate risks, currency risks and commodity price risks.

Embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss, if an analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value of listed derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are presented as assets if their fair value is positive and as liabilities if the fair value is negative.

If the requirements for hedge accounting set out in IAS 39 are met, Daimler designates and documents the hedge relationship from the date a derivative contract is entered into as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign business operation. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid from expected transactions related to a recognized asset or liability or a highly probable forecast transaction are hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of the risk being hedged, the identification of the hedging instrument and the hedged item, as well as a description of the method used to assess hedge effectiveness. Hedging transactions are expected to be highly effective in achieving offsetting risks from changes in fair value or cash flows and are regularly assessed to determine that they have actually been highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of derivative financial instruments are recognized periodically in either profit or loss or other comprehensive income/loss, depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For fair value hedges, changes in the fair value of the hedged item and the derivative are recognized in profit or loss. For cash flow hedges, fair value changes in the effective portion of the hedging instrument after taxes are recognized in other comprehensive income/loss. Amounts recognized in other comprehensive income/loss are reclassified to the statement of income when the hedged underlying transaction affects the statement of income. The ineffective portions of fair value changes are recognized in profit or loss.

If derivative financial instruments do not or no longer qualify for hedge accounting because the qualifying criteria for hedge accounting are not or are no longer met, the derivative financial instruments are classified as held for trading and are measured at fair value through profit or loss.

Pensions and similar obligations

The measurement of defined benefit plans for pensions and other post-employment benefit obligations (medical care) in accordance with IAS 19 Employee Benefits is based on the projected unit credit method. Plan assets invested to cover defined benefit pension obligations and other post-employment benefit obligations (medical care) are measured at fair value and offset against the corresponding obligations. For the valuation of defined benefit plans, differences between actuarial assumptions used and actual developments as well as changes in actuarial assumptions result in actuarial gains and losses, which have a direct impact on the consolidated statement of financial position or on the consolidated statement of comprehensive income/loss.

The balance of defined benefit plans for pensions and other post-employment benefit obligations and plan assets (net pension obligation or net pension assets) accrues interest at the discount rate used as a basis for the measurement of the gross pension obligation. The resulting net interest expense or income is recognized in profit and loss under interest expense or interest income in the consolidated statement of income. The other expenses resulting from pension obligations and other post-employment benefit obligations (medical care), which mainly result from entitlements acquired during the year under review, are taken into consideration in the functional costs in the consolidated statement of income.

The discount factors used to calculate the present values of defined benefit pension obligations are to be determined – with maturities and currencies matching the pension payments – by reference to market yields at the end of the reporting period on high-quality corporate bonds in the respective markets. For very long maturities, there are no high-quality corporate bonds available as a benchmark. The respective discount factors are estimated by extrapolating current market rates along the yield curve. At December 31, 2016, within the scope of a change in accounting estimates for the calculation of discount factors, the criteria for the selection of high-quality corporate bonds with AA ratings to be included was adjusted in order to improve the statistical significance of the calculation of return. The reduction in pension obligations due to the amended calculation of the discount rate was approximately €0.2 billion at December 31, 2016. This had no impact on the consolidated statement of income.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized in profit or loss when the curtailment or settlement occurs.

Provisions for other risks

A provision is recognized when a liability to third parties has been incurred, an outflow of resources is probable and the amount of the obligation can be reasonably estimated. The amount recognized as a provision represents the best estimate of the obligation at the reporting date. Provisions with an original maturity of more than one year are discounted to the present value of the expenditures expected to settle the obligation at the end of the reporting period. If the criteria of the regulations on recognition and measurement of provisions are not fulfilled and the possibility of a cash outflow upon settlement is not unlikely, the item is to be presented as a contingent liability. Provisions and contingent liabilities are regularly reviewed and adjusted as further information becomes available or circumstances change.

A provision for expected warranty costs is recognized when a product is sold or when a new warranty program is initiated. Estimates for accrued warranty costs are primarily based on historical experience.

Restructuring provisions are set up in connection with programs that materially change the scope of business performed by a segment or business unit or the manner in which business is conducted. In most cases, restructuring expenses include termination benefits and compensation payments due to the termination of agreements with suppliers and dealers. Restructuring provisions are recognized when the Group has a detailed formal plan that has either commenced implementation or been announced.

Share-based payment

Share-based payment comprises cash-settled liability awards.

Liability awards are measured at fair value at each balance sheet date until settlement and are classified as provisions. The profit or loss of the period equals the addition to and/or the reversal of the provision during the reporting period and the dividend equivalent paid during the period, and is included in the functional costs.

Presentation in the consolidated statement of cash flows

Interest paid as well as interest and dividends received are classified as cash provided by/used for operating activities. The cash flows from short-term marketable debt securities with high turnover rates and significant amounts are offset and presented within cash provided by/used for investing activities.

2. Accounting estimates and assessments

In the consolidated financial statements, to a certain degree, estimates, assessments and assumptions have to be made which can affect the amounts and reporting of assets and liabilities, the reporting of contingent assets and liabilities on the balance sheet date and the amounts of income and expense reported for the period. The major items affected by such estimates, assessments and assumptions are described as follows. Actual amounts may differ from the estimates. Changes in the estimates, assessments and assumptions can have a material impact on the consolidated financial statements.

Recoverable amounts of cash-generating units and equity-method investments

In the context of impairment tests for non-financial assets, estimates have to be made to determine the recoverable amounts of cash-generating units. Assumptions have to be made in particular with regard to future cash inflows and outflows for the planning period and the following periods. The estimates include assumptions regarding future market share and the growth of the respective markets as well as regarding the products' profitability. On the basis of the impairment tests carried out in 2016, the recoverable amounts are larger than the net assets of the Group's cash-generating units, in most cases substantially larger.

When objective evidence of impairment or impairment reversal is present, estimates and assessments also have to be made to determine the recoverable amount of an equity method financial investment. The determination of the recoverable amount is based on assumptions regarding future business developments for the determination of the expected future cash flows of that financial investment. See Note 13 for the presentation of carrying amounts and fair values of equity-method financial investments in listed companies.

Recoverable amount of equipment on operating leases

Daimler regularly reviews the factors determining the values of its leased vehicles. In particular, it is necessary to estimate the residual values of vehicles at the end of their leases, which constitute a substantial part of the expected future cash flows from leased assets. In this context, assumptions have to be made regarding the future supply of and demand for vehicles, as well as the development of vehicle prices. Those assumptions are determined either by qualified estimates or by publications provided by expert third parties; qualified estimates are based, as far as they are publicly available, on external data with consideration of internally available additional information such as historical experience of price developments and recent sale prices. The residual values thus determined serve as a basis for depreciation; changes in residual values lead either to prospective adjustments of the depreciation or, in the case of a significant decline in expected residual values, to impairment. If depreciation is prospectively adjusted, changes in estimates of residual values do not have a direct effect but are equally distributed over the remaining periods of the lease contracts.

Collectability of receivables from financial services

The Group regularly estimates the risk of default on receivables from financial services. Many factors are taken into consideration in this context, including historical loss experience, the size and composition of certain portfolios, current economic events and conditions and the estimated fair values and adequacy of collaterals. Changes in economic conditions can lead to changes in our customers' creditworthiness and to changes in used vehicle prices, which would have a direct effect on the market values of the vehicles assigned as collateral. Changes to the estimation and assessment of these factors influence the allowance for credit losses with a resulting impact on the Group's net profit. See also Notes 14 and 32 for further information.

Product warranties

The recognition and measurement of provisions for product warranties is generally connected with estimates.

The Group provides various types of product warranties depending on the type of product and market conditions. Provisions for product warranties are generally recognized when vehicles are sold or when new warranty programs are initiated. Based on historical warranty claim experience, assumptions have to be made on the type and extent of future warranty claims and customer goodwill, as well as on possible recall campaigns for each model series. These assessments are based on experience of the frequency and extent of vehicle faults and defects in the past. In addition, the estimates also include assumptions on the amounts of potential repair costs per vehicle and the effects of possible time or mileage limits. The provisions are regularly adjusted to reflect new information.

Further information on provisions for other risks is provided in Note 23.

Legal proceedings

Various legal proceedings, claims and governmental investigations are pending against Daimler AG and its subsidiaries on a wide range of topics. If the outcome of such legal proceedings is detrimental to Daimler, the Group may be required to pay substantial compensatory and punitive damages, to undertake service actions or recall campaigns, to pay fines or to carry out other costly actions. Litigation and governmental investigations often involve complex legal issues and are connected with a high degree of uncertainty. Accordingly, the assessment of whether an obligation exists on the balance sheet date as a result of an event in the past, and whether a future cash outflow is likely and the obligation can be reliably estimated, largely depends on estimations by the management. Daimler regularly evaluates the current stage of legal proceedings, also with the involvement of external legal counsel. It is therefore possible that the amounts of provisions for pending or potential litigation will have to be adjusted due to future developments. Changes in estimates and premises can have a material effect on the Group's future profitability. It is also possible that provisions accrued for some legal proceedings may turn out to be insufficient once such proceedings have ended. Daimler may also become liable for payments in legal proceedings no provisions were established for. Although the final resolution of any such proceedings could have a material effect on Daimler's operating results and cash flows for a particular reporting period, Daimler believes that it should not materially affect the Group's financial position.

Pensions and similar obligations

The calculation of provisions for pensions and similar obligations and the related pension cost are based on various actuarial valuations. The calculations are subject to various assumptions on matters such as current actuarially developed probabilities (e.g. discount factors and cost-of-living increases), future fluctuations with regard to age and period of service, and experience with the probability of occurrence of pension payments, annuities or lump sums. As a result of changed market or economic conditions, the probabilities on which the influencing factors are based, may differ from current developments. The financial effects of deviations of the main factors are calculated with the use of sensitivity analyses. See Note 22 for further information.

Income taxes

The calculation of income taxes of Daimler AG and its subsidiaries is based on the legislation and regulations applicable in the various countries. Due to their complexity, the tax items presented in the financial statements are possibly subject to different interpretation by taxpayers on the one hand and local tax authorities on the other hand. For the calculation of deferred tax assets, assumptions have to be made regarding future taxable income and the time of realization of the deferred tax assets. In this context, Daimler takes into consideration, among other things, the projected earnings from business operations, the effects on earnings of the reversal of taxable temporary differences, and realizable tax strategies. As future business developments are uncertain and are sometimes beyond Daimler's control, the assumptions to be made in connection with accounting for deferred tax assets are connected with a substantial degree of uncertainty. On each balance sheet date, Daimler carries out impairment tests on deferred tax assets on the basis of the planned taxable income in future financial years; if Daimler assesses that the probability of future tax advantages being partially or fully unrealized is more than 50%, the deferred tax assets are impaired. Further information is provided in Note 9.

3. Consolidated Group

Composition of the Group

Table 7 E.08 shows the composition of the Group.

The aggregate balance sheet totals of the subsidiaries, associated companies, joint ventures and joint operations accounted for at amortized cost whose business is non-active or of low volume and which are not material for the Group and the fair presentation of its profitability, liquidity and capital resources and financial position would amount to approximately 1% of the Group's balance sheet total; the aggregate revenues and the aggregate net profit would amount to approximately 1% of the Group's revenue and net profit.

A detailed list of the companies included in the consolidated financial statements and of the equity investments of Daimler Group pursuant to Section 313 of the German Commercial Code (HGB) is provided in the statement of investments. Further information is provided in Note 40.

Structured entities

The structured entities of the Group are rental companies, asset-backed-securities (ABS) companies and special funds. The purpose of the rental companies primarily is the acquisition, renting and management of assets. The ABS companies are primarily used for the Group's refinancing. The assets transferred to structured entities usually result from the Group's leasing and sales financing business. Those entities refinance the purchase price by issuing securities. The special funds are set up in particular in order to diversify the capital investment strategy.

At the reporting date, the Group has business relationships with 20 (2015: 11) controlled structured entities, of which 18 (2015: 9) are fully consolidated. In addition, the Group has relationships with 5 (2015: 5) non-controlled structured entities. The unconsolidated structured entities are not material for the Group's profitability, liquidity and capital resources and financial position.

Consolidated subsidiaries

On June 30, 2016, Daimler signed the agreements for the acquisition of 100% of the shares of **Athlon** Car Lease International B.V. (Athlon), based in Eindhoven, Netherlands, a subsidiary of the Dutch Rabobank Group. Athlon is one of the leading providers of mobility solutions in Europe, especially of leasing and fleet management for commercial customers. With the acquisition of Athlon, Daimler Financial Services has repositioned itself in fleet management as a multi-brand service provider with a broad international presence. Athlon is allocated to the Daimler Financial Services segment.

The transaction was closed on December 1, 2016. Upon closing, the purchase price of €1.1 billion was paid and financial liabilities of the Athlon companies in an amount of approximately €2.7 billion were settled.

Due to closeness in time to the balance sheet date, the purchase-price allocation is preliminary. Purchase price allocation will be finalized in the year 2017. In the context of the preliminary purchase-price allocation, €637 million was allocated to intangible assets, €56 million to leased equipment and €72 million to deferred tax liabilities. The amount allocated to intangible assets includes €153 million for the acquired customer base, €27 million for the Athlon brand, €21 million for acquired software and €436 million for provisional goodwill.

The Athlon Group did not make a significant contribution to the Daimler Group's revenue or earnings in December. If Athlon had been included in the Daimler Group's consolidated financial statements at January 1, 2016, Group revenue would have increased by €2.2 billion and net profit by €0.1 billion.

Effective as of June 30, 2016, Daimler placed its 3.1% interest in each of **Renault** S.A. (Renault) and **Nissan** Motor Company Ltd. (Nissan) into the Daimler Pension Trust e.V. for the purpose of strengthening the German pension plan assets over the long term. Before this transfer, the investments in Renault and Nissan were presented under other financial assets. The investments were measured at fair value, whereby unrecognized gains were shown under other comprehensive income.

The extraordinary contribution to the German pension plan assets is equal to the fair value of the assets transferred at the time of transfer and amounts to €1,800 million. In 2016, the contribution of the shares led to other financial income in an amount of €605 million, which is shown in the reconciliation. There was no impact on liquidity and capital resources.

Joint operations accounted for using proportionate consolidation

Daimler AG together with Nissan Motor Company Ltd. founded the joint operation Cooperation Manufacturing Plant Aguascalientes, S.A.P.I. de C.V. in Mexico in 2015. In the future, the company will produce cars for the brands Mercedes-Benz and Infiniti. Daimler and Nissan each hold a 50% interest. The joint operation has been accounted for using proportionate consolidation since July 1, 2016. The company is allocated to the Mercedes-Benz Cars segment.

Equity-method investments

There Holding B.V. (THBV) was founded in 2015; Daimler, Audi and BMW each hold 33.3% of the shares of the company. Each of the shareholders provided a capital contribution of €668 million.

Effective as of December 4, 2015, HERE International B.V. (formerly There Acquisition B.V.) based in Rijswijk, Netherlands, a 100% subsidiary of There Holding B.V., acquired the mapping provider HERE from Nokia Corporation for a purchase price of €2,593 million. The acquisition was financed by capital contributions of €2,000 million and by bank loans taken out by There Acquisition B.V. of €593 million.

There Holding B.V. is accounted for in the consolidated financial statements of Daimler AG as an associated company using the equity method, and is allocated to the Mercedes-Benz Cars segment.

In December 2016, There Holding B.V. signed contracts for the sale of shares in HERE International B.V. The sale of a 15% equity interest to Intel Holdings B.V. was completed in January 2017. An equity interest of 10% was sold to a Chinese consortium consisting of NavInfo Co. Ltd., Tencent Holdings Ltd. and GIC Private Ltd. The transaction is expected to be closed in the first half of 2017, after the approval of the relevant authorities is granted.

See Note 13 for further information on the companies accounted for using the equity method.

E.08

Composition of the Group

	At December 31,	
	2016	2015
Consolidated subsidiaries	359	329
Germany	62	59
International	297	270
Unconsolidated subsidiaries	97	82
Germany	30	29
International	67	53
Joint operations accounted for using proportionate consolidation	1	-
Germany	-	-
International	1	-
Joint operations accounted for using the equity method	3	3
Germany	1	1
International	2	2
Joint ventures accounted for using the equity method	14	13
Germany	4	4
International	10	9
Associated companies accounted for using the equity method	13	14
Germany	3	3
International	10	11
Joint operations, joint ventures and associated companies accounted for at (amortized) cost	26	29
Germany	13	15
International	13	14
	513	470

E.09**Revenue**

	2016	2015
In millions of euros		
Revenue from sales of goods	132,577	130,705
Revenue from the rental and leasing business	15,997	14,462
Interest from the financial services business at Daimler Financial Services	4,146	3,853
Revenue from sales of other services	541	447
	153,261	149,467

E.10**Cost of sales**

	2016	2015
In millions of euros		
Expense of goods sold	-107,925	-105,990
Depreciation of equipment on operating leases	-6,652	-5,946
Refinancing costs at Daimler Financial Services	-1,789	-1,666
Impairment losses on receivables from financial services	-499	-502
Other cost of sales	-4,433	-3,913
	-121,298	-118,017

E.11**Optimization programs**

	2016	2015
In millions of euros		
Mercedes-Benz Cars		
EBIT	-33	-64
Cash flow	253	180
Provisions for optimization programs ¹	11	82
Daimler Trucks		
EBIT	-105	-105
Cash flow	-68	-64
Provisions for optimization programs ¹	3	21
Mercedes-Benz Vans		
EBIT	-49	-29
Cash flow	-	5
Provisions for optimization programs ¹	3	19
Daimler Buses		
EBIT	-9	-4
Cash flow	-3	-1
Provisions for optimization programs ¹	-	2

¹ Amounts of provisions for optimization programs as of December 31.

4. Revenue

Table [7 E.09](#) shows the composition of revenue at Group level.

Revenue by segment [7 E.81](#) and region [7 E.83](#) is presented in Note 33.

5. Functional costs**Cost of sales**

Items included in cost of sales are shown in table [7 E.10](#).

Amortization expense of capitalized development costs in the amount of €1,268 million (2015: €1,245 million) is presented in expense of goods sold.

Selling expenses

In 2016, selling expenses amounted to €12,226 million (2015: €12,147 million). Selling expenses include direct selling costs as well as selling overhead expenses and consist of personnel expenses, material costs and other selling costs.

General administrative expenses

General administrative expenses amounted to €3,419 million in 2016 (2015: €3,363 million) and comprise expenses which are not attributable to production, sales or research and development functions and include personnel expenses, depreciation and amortization of fixed and intangible assets, and other administrative costs.

The redefinition of cost allocations in 2016 led in 2015 to retrospective reclassifications of €347 million from administrative expenses to cost of sales. If the original definition of cost allocations had been retained administrative expenses in 2016 would have been €386 million higher and cost of sales by the same amount lower.

Research and non-capitalized development costs

Research and non-capitalized development costs were €5,257 million in 2016 (2015: €4,760 million) and primarily comprise personnel expenses and material costs.

Optimization programs

Measures and programs with implementation costs that materially impacted EBIT of the segments are briefly described below.

In the course of the organizational focus on the divisions, Daimler started a restructuring program for its sales organization in Germany in 2014. Selected sales-and-service centers and outlets were combined into passenger car and commercial vehicle outlets in order to steadily increase the profitability of Daimler's own dealer activities in the highly competitive German market. The restructuring program for the sales organization in Germany was concluded in the third quarter of 2016. In addition, programs for restructuring the Group's dealer network abroad were initiated in 2015. The restructuring programs also include the sale of selected operations of the Group's current sales network in Germany and abroad. Those programs affect all automotive segments, but especially the Mercedes-Benz Cars segment. In the reporting period 2016, these measures resulted in a net expense of €58 million (2015: €144 million).

At December 31, 2016, the disposal group's assets for the locations abroad amounted to €240 million (December 31, 2015: €248 million) and its liabilities amounted to €135 million (December 31, 2015: €12 million). Due to their minor impact on the Group's profitability, liquidity and capital resources, and financial position, the assets and liabilities held for sale are not presented separately in the consolidated statement of financial position.

In the Daimler Trucks segment, a redundancy program was launched in Brazil in 2013. That program led to a reduction of approximately 3,200 jobs in the administrative and productive areas as of December 31, 2015, mostly through voluntary severance agreements.

Furthermore, another severance program was initiated in Brazil in 2016. So far, that program has led to a reduction of approximately 2,200 jobs, mostly through voluntary severance agreements. In the Daimler Trucks segment, that program resulted in expenses of €91 million in the year ended December 31, 2016.

The aforementioned workforce adjustments in Brazil also affect the Daimler Buses segment to a small extent. In 2016, an expense of €9 million was recognized in this respect at Daimler Buses.

In addition, in non-productive areas of Daimler Trucks in Germany, a program based on socially acceptable voluntary measures ran between May 2013 and December 2014, which was continued in the third quarter of 2015 and led to a total reduction of approximately 700 jobs as of December 31, 2015.

Mainly in 2017, Daimler Trucks anticipates expenses of up to €500 million from measures relating to the further optimization of fixed costs, especially for the Mercedes-Benz brand.

Mercedes-Benz Vans initiated a socially acceptable voluntary severance program for the Düsseldorf plant in 2016. Approximately 200 severance agreements were signed, leading to an expense of €38 million in 2016. Total expenses of up to €0.1 billion are expected in the years 2016 through 2018.

Table 7 E.11 shows the effects of the optimization programs on the key figures of the segments.

Beside gains and/or losses from the sale of selected operations of the Group's current sales network, the EBIT effects listed in table 7 E.11 primarily relate to personnel measures and are included in the line items within the consolidated statement of income as shown in table 7 E.12.

Cash effects resulting from the optimization programs are expected in the years 2017 and 2018.

Personnel expenses and average number of employees

Personnel expenses included in the consolidated statement of income amounted to €21,141 million in 2016 (2015: €20,949 million). The personnel expenses are composed of wages and salaries in the amount of €17,150 million (2015: €16,963 million), social contributions in the amount of €3,242 million (2015: €3,197 million) and expenses from pension obligations in the amount of €749 million (2015: €789 million). The average numbers of people employed are shown in table 7 E.13.

Information on the total remuneration of the current and former members of the Board of Management and the current members of the Supervisory Board is provided in Note 37.

E.12

Income and expenses associated with optimization programs

	2016	2015
In millions of euros		
Cost of sales	-127	-46
Selling expenses	-108	-119
General administrative expenses	-8	-7
Research and non-capitalized development costs	-2	-3
Other operating expenses	-45	-137
Other operating income	94	110
	-196	-202

E.13

Average number of employees

	2016	2015
Mercedes-Benz Cars ¹	140,591	137,431
Daimler Trucks	81,810	87,707
Mercedes-Benz Vans	23,763	22,430
Daimler Buses	17,937	17,755
Daimler Financial Services	10,880	9,665
Other	9,976	9,574
	284,957	284,562

¹ 337 employees from proportionately consolidated company are proportionately included in 2016.

E.14**Other operating income**

	2016	2015
In millions of euros		
Income from costs recharged to third parties	1,219	1,131
Government grants and subsidies	144	107
Gains on sales of property, plant and equipment	24	125
Rental income not relating to sales financing	126	81
Income associated with optimization programs	94	110
Other miscellaneous income	743	560
	2,350	2,114

E.15**Other operating expense**

	2016	2015
In millions of euros		
Losses on sales of property, plant and equipment	-111	-127
Expenses associated with optimization programs	-45	-137
Other miscellaneous expenses	-1,142	-291
	-1,298	-555

E.16**Other financial income/expense, net**

	2016	2015
In millions of euros		
Income and expense from compounding and effects from changes in discount rates of provisions for other risks	-124	-20
Miscellaneous other financial income/expense, net	399	-7
	275	-27

E.17**Interest income and interest expense**

	2016	2015
In millions of euros		
Interest income		
Net interest income on the net assets of defined benefit pension plans	5	3
Interest and similar income	225	167
	230	170
Interest expense		
Net interest expense on the net obligation from defined benefit pension plans	-227	-293
Interest and similar expense	-319	-309
	-546	-602

6. Other operating income and expense

The composition of other operating income is shown in table [7 E.14](#).

Income from costs recharged to third parties includes income from licenses and patents, shipping costs and other costs charged to third parties, with related expenses primarily within the functional costs.

Government grants and subsidies mainly comprise reimbursements relating to current part-time early retirement contracts and subsidies for alternative drive systems.

Gains on sales of property, plant and equipment in 2015 included gains of €87 million from the sale of real-estate properties in the United States.

The composition of other operating expense is shown in table [7 E.15](#).

Further information on income and expenses associated with optimization programs is provided in Note 5.

Other miscellaneous expense includes losses from disposals of current assets, changes in other provisions (partially in connection with legal proceedings of €400 million), expenses for the settlement of a patent dispute of €64 million and additional miscellaneous items.

7. Other financial income/expense, net

Table [7 E.16](#) shows the components of other financial income/expense, net.

Other financial income in 2016 comprises the gains of €605 million recognized from the contribution of the equity interests in Renault and Nissan to the pension plan assets at fair value. Those gains were previously presented within other comprehensive income/loss.

8. Interest income and interest expense

Table [7 E.17](#) shows the components of interest income and interest expense.

9. Income taxes

Profit before income taxes is comprised as shown in table [7 E.18](#).

Profit before income taxes in Germany includes profit/loss from equity-method investments if the equity interests in those companies are held by German companies.

Table [7 E.19](#) shows the components of income taxes.

The current tax expense includes tax benefits at German and foreign companies of €292 million (2015: €731 million) recognized for prior periods.

The deferred tax expense is comprised of the components shown in table [7 E.20](#).

For German companies, in 2016 and 2015, deferred taxes were calculated using a federal corporate income tax rate of 15%, a solidarity tax surcharge of 5.5% on each year's federal corporate income taxes, and a trade tax rate of 14%. In total, the tax rate applied for the calculation of German deferred taxes in both years amounted to 29.825%.

For non-German companies, the deferred taxes at period-end were calculated using the tax rates of the respective countries.

Table [7 E.21](#) shows a reconciliation of expected income tax expense to actual income tax expense determined using the unchanged applicable German combined statutory tax rate of 29.825%.

E.18

Profit before income taxes

	2016	2015
In millions of euros		
German companies	5,775	4,980
Non-German companies	6,799	7,764
	12,574	12,744

E.19

Components of income taxes

	2016	2015
In millions of euros		
Current taxes		
German companies	-1,396	-918
Non-German companies	-1,690	-1,558
Deferred taxes		
German companies	-155	-444
Non-German companies	-549	-1,113
	-3,790	-4,033

E.20

Components of deferred tax expense

	2016	2015
In millions of euros		
Deferred taxes	-704	-1,557
due to temporary differences	-44	-595
due to tax loss carryforwards and tax credits	-660	-962

E.21

Reconciliation of expected income tax expense to actual income tax expense

	2016	2015
In millions of euros		
Expected income tax expense	-3,750	-3,801
Foreign tax rate differential	-41	-126
Trade tax rate differential	31	44
Tax law changes	48	-49
Change of valuation allowance on deferred tax assets	-225	-147
Tax-free income and non-deductible expenses	113	41
Other	34	5
Actual income tax expense	-3,790	-4,033

E.22**Deferred tax assets and liabilities**

	At December 31,	
	2016	2015
In millions of euros		
Deferred tax assets	3,870	3,284
Deferred tax liabilities	-3,467	-2,215
Deferred tax assets, net	403	1,069

E.23**Split of tax assets and liabilities before offset**

	At December 31,	
	2016	2015
In millions of euros		
Intangible assets	51	52
Property, plant and equipment	340	409
Equipment on operating leases	1,798	1,178
Inventories	1,129	992
Receivables from financial services	328	303
Other financial assets	5,697	4,984
Tax loss carryforwards and unused tax credits	2,256	2,693
Provisions for pensions and similar obligations	891	869
Other provisions	2,348	2,304
Liabilities	1,518	1,645
Deferred income	1,702	1,611
Other	324	331
	18,382	17,371
Valuation allowances	-1,248	-988
Deferred tax assets, gross	17,134	16,383
Development costs	-2,625	-2,317
Other intangible assets	-274	-125
Property, plant and equipment	-1,654	-1,742
Equipment on operating leases	-7,919	-7,188
Inventories	-68	-63
Receivables from financial services	-1,124	-575
Other financial assets	-384	-363
Other assets	-236	-169
Provisions for pensions and similar obligations	-2,098	-2,390
Other provisions	-139	-183
Other	-210	-199
Deferred tax liabilities, gross	-16,731	-15,314
Deferred tax assets, net	403	1,069

In 2016 and 2015, the Group impaired deferred tax assets of foreign subsidiaries. The resulting tax expenses are included in the line item change of valuation allowance on deferred tax assets.

Tax-free income and non-deductible expenses include all other effects at foreign and German companies relating to tax-free income and non-deductible expenses, for instance tax-free gains included in net periodic pension costs at the German companies and tax-free results of our equity-method investments. In 2016, tax-free gains recognized on the contribution of our shares in Renault and Nissan into the German pension plan assets are shown in this line item. Furthermore, in 2016 and 2015, the line item also includes tax benefits relating to tax assessments of prior years. The tax benefits relating to tax assessments of prior years consist of the current tax benefits recognized for prior periods as well as partly offsetting deferred tax expenses recognized for prior periods.

Deferred tax assets and deferred tax liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and if there is the right to set off current tax assets against current tax liabilities. In the presentation of deferred tax assets and liabilities in the consolidated statement of financial position, no difference is made between current and non-current. In the consolidated statement of financial position, deferred tax assets and liabilities are presented as shown in table [7 E.22](#).

In respect of each type of temporary difference and in respect of each type of unutilized tax loss carryforwards and unutilized tax credits, the deferred tax assets and liabilities before offset are summarized in table [7 E.23](#).

The development of deferred tax assets, net, is shown in table [7 E.24](#).

Including the items recognized in other comprehensive income/loss (including items from equity-method investments), the expense for income taxes is comprised as shown in table [7 E.25](#).

In the consolidated statement of financial position, the valuation allowances on deferred tax assets, which are mainly attributable to foreign companies, increased by €260 million compared to December 31, 2015. This is primarily a result of the additional valuation allowances of €225 million recognized in net profit. Furthermore, an increase of the valuation allowance was recognized in equity, mainly due to currency translation.

At December 31, 2016, the valuation allowance on deferred tax assets relates, among other things, to corporate income tax loss carryforwards (€824 million). €136 million of the deferred tax assets for corporate income tax loss carryforwards adjusted by a valuation allowance relates to tax loss carryforwards which expire at various dates from 2017 through 2021, €153 million relates to tax loss carryforwards which expire at various dates from 2022 through 2026, €8 million relates to tax loss carryforwards which expire at various dates from 2032 through 2036 and €527 million relates to tax loss carryforwards which can be carried forward indefinitely. Furthermore, the valuation allowance primarily relates to temporary differences at non-German companies as well as net operating losses for state and local taxes at the US companies. Daimler believes that it is more likely than not that those deferred tax assets cannot be utilized. In 2016 and prior years, the Group had tax losses at several subsidiaries in several countries. After offsetting the deferred tax assets with deferred tax liabilities, the deferred tax assets not subject to valuation allowances amounted to €347 million for those subsidiaries. Daimler believes it is more likely than not that future taxable income will be sufficient to allow utilization of the deferred tax assets. Daimler's current estimate of the amount of deferred tax assets that is considered realizable may change in the future, necessitating higher or lower valuation allowances.

The retained earnings of non-German subsidiaries are largely intended to be reinvested in those operations. The Group did not recognize deferred tax liabilities on retained earnings of non-German subsidiaries of €28,750 million (2015: €27,005 million). If earnings are paid out as dividends, an amount of 5% would be taxed under German taxation rules and, if applicable, with non-German withholding tax. Additionally, income tax consequences may arise if the dividends first have to be distributed by a non-German subsidiary to a non-German holding company. Normally, the distribution would lead to an additional income tax expense. It is not practicable to estimate the amount of taxable temporary differences for these undistributed foreign earnings.

The Group has various unresolved issues concerning open income tax years with the tax authorities in a number of jurisdictions. Daimler believes that it has recognized adequate provisions for any future income taxes that may be owed for all open tax years.

As a result of future adjudications or changes in the opinions of the fiscal authorities, it cannot be ruled out that Daimler might receive tax refunds for previous years.

E.24

Change of deferred tax assets, net

	2016	2015
In millions of euros		
Deferred tax assets, net as of January 1	1,069	3,054
Deferred tax expense in the financial statement of income	-704	-1,557
Change in deferred tax expense/benefit on financial assets available-for-sale included in other comprehensive income/loss	1	-8
Change in deferred tax expense/benefit on derivative financial instruments included in other comprehensive income/loss	-495	278
Change in deferred tax expense/benefit on actuarial gains/losses from defined benefit pension plans	748	-579
Other changes ¹	-216	-119
Deferred tax assets, net as of December 31	403	1,069

¹ Additions to the scope of consolidation in the amount of €-112 million are included in 2016. The other changes primarily relate to effects from currency translation.

E.25

Tax expense in equity

	2016	2015
In millions of euros		
Income tax expense in the consolidated financial statement of income	-3,790	-4,033
Income tax expense/benefit recorded in other reserves	254	-309
	-3,536	-4,342

10. Intangible assets

Intangible assets developed as shown in table [7 E.26](#).

At December 31, 2016, goodwill of €480 million (2015: €32 million) relates to the Daimler Financial Services segment, goodwill of €456 million (2015: €425 million) relates to the Daimler Trucks segment and goodwill of €185 million (2015: €194 million) relates to the Mercedes-Benz Cars segment. The increase in goodwill at the Daimler Financial Services segment mainly results from the acquisition of the Athlon Group. Further explanation is presented in Note 3.

Non-amortizable intangible assets primarily relate to goodwill and development costs for projects which have not yet been completed (carrying amount at December 31, 2016: €3,780 million; 2015: €2,137 million). In addition, other intangible assets with a carrying amount of €266 million (2015: €258 million) are not amortizable. Other non-amortizable intangible assets are trademarks with indefinite useful lives, which relate to the Daimler Trucks segment, as well as distribution rights of Mercedes-Benz Cars with indefinite useful lives. The Group plans to continue to use these assets unchanged.

Table [7 E.27](#) shows the line items of the consolidated statement of income in which total amortization expense for intangible assets is included.

E.26

Intangible assets

	Goodwill (acquired)	Development costs (internally generated) ²	Other intangible assets (acquired)	Total
In millions of euros				
Acquisition or manufacturing costs				
Balance at January 1, 2015	1,017	12,153	3,251	16,421
Additions due to business combinations	-	-	25	25
Other additions	-	1,815	458	2,273
Reclassifications	-	-	-	-
Disposals	-4	-1,018	-298	-1,320
Other changes ¹	2	12	146	160
Balance at December 31, 2015	1,015	12,962	3,582	17,559
Additions due to business combinations	449	-	221	670
Other additions	-	2,323	629	2,952
Reclassifications	-	-	-	-
Disposals	-	-1,335	-100	-1,435
Other changes ¹	17	13	52	82
Balance at December 31, 2016	1,481	13,963	4,384	19,828
Amortization/impairment				
Balance at January 1, 2015	277	4,908	1,869	7,054
Additions	4	1,255	331	1,590
Reclassifications	-	-	-	-
Disposals	-4	-999	-261	-1,264
Other changes ¹	11	9	90	110
Balance at December 31, 2015	288	5,173	2,029	7,490
Additions	-	1,280	320	1,600
Reclassifications	-	-	-	-
Disposals	-	-1,334	-89	-1,423
Other changes ¹	5	17	41	63
Balance at December 31, 2016	293	5,136	2,301	7,730
Carrying amount at December 31, 2015	727	7,789	1,553	10,069
Carrying amount at December 31, 2016	1,188	8,827	2,083	12,098

¹ Primarily changes from currency translation.

² Including capitalized borrowing costs on development costs of €54 million (2015: €59 million). Amortization amounted to €12 million (2015: €10 million).

11. Property, plant and equipment

Property, plant and equipment developed as shown in table [7 E.28](#).

In 2016, government grants of €151 million (2015: €192 million) were deducted from property, plant and equipment.

Property, plant and equipment also include buildings, technical equipment and other equipment under finance lease arrangements and thus deemed to be owned by the Group with a carrying amount at December 31, 2016 of €178 million (2015: €221 million). In 2016, additions to and depreciation expense on assets under finance lease arrangements amounted to €7 million (2015: €16 million) and €40 million (2015: €39 million), respectively.

E.27

Amortization expense for intangible assets in the consolidated statement of income

	2016	2015
In millions of euros		
Cost of sales	1,443	1,434
Selling expenses	74	73
General administrative expenses	37	44
Research and non-capitalized development costs	36	35
Other operating expense	10	4
	1,600	1,590

E.28

Property, plant and equipment

	Land, leasehold improvements and buildings including buildings on land owned by others	Technical equipment and machinery	Other equipment, factory and office equipment	Advance payments relating to plant and equipment and construction in progress	Total
In millions of euros					
Acquisition or manufacturing costs					
Balance at January 1, 2015	15,396	23,079	22,886	2,521	63,882
Additions due to business acquisitions	-	-	-	-	-
Other additions	255	854	1,521	2,279	4,909
Reclassifications	302	817	793	-1,913	-1
Disposals	-334	-738	-686	-56	-1,814
Other changes ¹	144	-34	259	15	384
Balance at December 31, 2015	15,763	23,978	24,773	2,846	67,360
Additions due to business acquisitions	-	-	7	1	8
Other additions	588	1,002	1,407	2,692	5,689
Reclassifications	591	1,088	607	-2,286	-
Disposals	-379	-670	-742	-69	-1,860
Other changes ¹	193	226	296	305	1,020
Balance at December 31, 2016	16,756	25,624	26,348	3,489	72,217
Depreciation/impairment					
Balance at January 1, 2015	8,454	14,959	17,277	10	40,700
Additions	335	1,358	2,102	9	3,804
Reclassifications	1	-1	-	-	-
Disposals	-275	-730	-612	-19	-1,636
Other changes ¹	-9	-38	216	1	170
Balance at December 31, 2015	8,506	15,548	18,983	1	43,038
Additions	425	1,423	2,043	-	3,891
Reclassifications	-8	-13	21	-	-
Disposals	-234	-627	-649	-	-1,510
Other changes ¹	60	138	220	-1	417
Balance at December 31, 2016	8,749	16,469	20,618	-	45,836
Carrying amount at December 31, 2015	7,257	8,430	5,790	2,845	24,322
Carrying amount at December 31, 2016	8,007	9,155	5,730	3,489	26,381

¹ Primarily changes from currency translation.

E.29**Equipment on operating leases**

In millions of euros

Acquisition or manufacturing costs

Balance at January 1, 2015	40,928
Additions due to business acquisitions	-
Other additions	21,636
Reclassifications	1
Disposals	-16,637
Other changes ¹	2,163
Balance at December 31, 2015	48,091
Additions due to business acquisitions	3,560
Other additions	23,504
Reclassifications	-
Disposals	-18,204
Other changes ¹	379
Balance at December 31, 2016	57,330

Depreciation/impairment

Balance at January 1, 2015	7,878
Additions	5,946
Reclassifications	-
Disposals	-5,073
Other changes ¹	398
Balance at December 31, 2015	9,149
Additions	6,652
Reclassifications	-
Disposals	-5,487
Other changes ¹	74
Balance at December 31, 2016	10,388

Carrying amount at December 31, 2015	38,942
Carrying amount at December 31, 2016	46,942

¹ Primarily changes from currency translation.**12. Equipment on operating leases**

The development of equipment on operating leases is shown in table [↗ E.29](#).

At December 31, 2016, equipment on operating leases with a carrying amount of €7,465 million were pledged as security for liabilities from ABS transactions related to a securitization transaction of future lease payments on leased vehicles (December 31, 2015: €5,404 million) (see also Note 24).

Minimum lease payments

Non-cancelable future lease payments to Daimler for equipment on operating leases are due as presented in table [↗ E.30](#).

E.30**Maturity of minimum lease payments for equipment on operating leases**

	At December 31,	
	2016	2015
In millions of euros		
Maturity		
within one year	7,660	6,363
between one and five years	8,306	6,813
later than five years	63	63
	16,029	13,239

13. Equity-method investments

Table 7 E.31 shows the carrying amounts and profits/losses from equity-method investments.

Table 7 E.32 presents key figures on interests in associated companies accounted for using the equity method in the Group's consolidated financial statements.

E.31

Summarized carrying amounts and profits/losses from equity-method investments

	Associated companies	Joint ventures	Joint operations	Total
In millions of euros				
At December 31, 2016				
Equity investment ¹	3,582	468	48	4,098
Equity result ¹	485	11	6	502
At December 31, 2015				
Equity investment ¹	3,124	462	47	3,633
Equity result ¹	490	-34	8	464

1 Including investor-level adjustments.

E.32

Key figures on interests in associated companies accounted for using the equity method

	BBAC	BAIC Motor ³	THBV ⁴ (HERE)	Others	Total
In millions of euros					
At December 31, 2016					
Equity interest (in %)	49.0	10.1	33.3		
Stock market price ¹	-	647	-		
Equity investment ²	2,141	557	611	273	3,582
Equity result ²	678	-176	-56	39	485
Dividend payment to Daimler	-	16	-		
At December 31, 2015					
Equity interest (in %)	49.0	10.1	33.3		
Stock market price ¹	-	705	-		
Equity investment ²	1,418	772	668	266	3,124
Equity result ²	441	74	-	-25	490
Dividend payment to Daimler ⁵	208	34	-		

1 Proportionate stock market prices.

2 Including investor-level adjustments.

3 The proportionate share of earnings of BAIC Motor Corporation Ltd. (BAIC Motor) is included in Daimler's consolidated financial statements with a three-month time lag.

4 The proportionate share of earnings of There Holding B.V. (THBV) has so far been included in Daimler's consolidated financial statements with a one-month time lag. As the investment was acquired in December 2015, no proportionate share of earnings was included for 2015. As of December 31, 2016 the time lag was cancelled.

5 The dividend from BBAC of €208 million was partly paid out in the year 2016 with an amount of €69 million.

BBAC

Beijing Benz Automotive Co., Ltd. (BBAC) produces and distributes Mercedes-Benz passenger cars and spare parts in China. The investment and the proportionate share in the results of BBAC are allocated to the Mercedes-Benz Cars segment.

In 2016, BBAC received capital increases of €101 million from Daimler. Daimler plans to contribute additional equity of €0.1 billion, in accordance with its shareholding ratio, to BBAC in the coming years.

BAIC Motor

BAIC Motor Corporation Ltd. (BAIC Motor) is the passenger car division of BAIC Group, one of the leading automotive companies in China. Directly or via subsidiaries, BAIC Motor is engaged in the business of researching, developing, manufacturing, selling, marketing and servicing of automotive vehicles and related parts and components and all related services. Due to Daimler's representation on the board of directors of BAIC Motor and other contractual arrangements, Daimler classifies this investment as an investment in an associate, to be accounted for using the equity-method; in the segment reporting, the investment's carrying amount and its proportionate share of profit or loss are presented in the reconciliation of total segment's assets to Group assets and total segments' EBIT to Group EBIT, respectively. In the first quarter of 2016, due to the lower stock-exchange price, the Group recognized an impairment loss of €244 million with respect to its investment in BAIC Motor. The loss is included in the line item profit/loss on equity-method investments, net.

THBV (HERE)

There Holding B.V. (THBV), based in Rijswijk, Netherlands, was founded in 2015. Daimler, Audi and BMW each holds an interest in the company of 33.3%. In 2015, each of the shareholders made a cash contribution to the company of €668 million.

Effective December 4, 2015, HERE International B.V. (formerly There Acquisition B.V.), based in Rijswijk, Netherlands, a 100% subsidiary of There Holding B.V., acquired the roadmap service HERE from Nokia Corporation for a price of €2,593 million. HERE is one of the biggest manufacturers of digital roadmaps for navigation systems worldwide. Future expected high resolution maps will be one of the fundamentals for future autonomous driving. The acquisition was funded by cash contributions of €2,000 million and by bank loans to HERE International B.V. of €593 million. There Holding B.V. is accounted for in the consolidated financial statements of Daimler AG as an associated company using the equity method, and is allocated to the Mercedes-Benz Cars segment. In 2015 Daimler's proportionate share of its profits and losses has been included with a one-month time lag which was cancelled as of December 31, 2016. No proportionate share of profit or loss was included in Daimler's consolidated financial statements for 2015 as the amount was not material. Purchase price allocation was finalized in the first quarter 2016.

In December 2016, There Holding B.V. signed contracts for the sale of shares in HERE International B.V. The sale of a 15% equity interest to Intel Holdings B.V. was completed in January 2017. An equity interest of 10% was sold to a Chinese consortium consisting of NavInfo Co. Ltd., Tencent Holdings Ltd. and GIC Private Ltd. The transaction is expected to be closed in the first half of 2017, after the approval of the relevant authorities is granted.

Table [7 E.33](#) shows summarized IFRS financial information after purchase price allocation for the significant associated companies which were the basis for equity-method accounting in the Group's consolidated financial statements.

Other minor equity-method investments

Table [7 E.34](#) shows summarized aggregated financial information for the other minor equity-method investments after purchase price allocation and on a pro rata basis.

Further information on equity-method investments is provided in Notes 3 and 36.

E.33**Summarized IFRS financial information on significant associated companies accounted for using the equity method**

	BBAC ¹		BAIC Motor ²		THBV ³ (HERE)	
	2016	2015	2016	2015	2016	2015
In millions of euros						
Information on the statement of income						
Revenue	11,673	9,575	15,117	11,336	1,240	-
Profit/loss from continuing operations after taxes	1,449	862	1,285	1,005	-167	-
Profit/loss from discontinued operations after taxes	-	-	-	-	-	-
Other comprehensive income/loss	-21	-	-	-	-4	-
Total comprehensive income/loss	1,428	862	1,285	1,005	-171	-
Information on the statement of financial position and reconciliation to equity-method carrying amounts						
Non-current assets	4,354	4,139	13,280	12,072	2,802	3,115
Current assets	6,520	4,232	10,005	7,028	592	365
Non-current liabilities	694	445	2,333	2,434	1,044	1,093
Current liabilities	5,623	4,903	11,584	8,095	518	384
Equity (including non-controlling interest)	4,557	3,023	9,368	8,571	1,832	2,003
Equity (excluding non-controlling interests) attributable to the Group	2,233	1,481	720	691	611	668
Unrealized profit (-)/loss (+) on sales to/purchases from	-91	-63	-	-	-	-
Equity-method goodwill	-	-	74	77	-	-
Other	-1	-	-237	4	-	-
Carrying amount of equity-method investment	2,141	1,418	557	772	611	668

1 BBAC:

Figures for the statement of income relate to the period of January 1 to December 31.

Figures for the statement of financial position and the reconciliation to equity-method carrying amounts relate to the balance sheet date December 31.

2 BAIC Motor:

Daimler recognizes its proportionate share of the profits or losses of BAIC Motor Corporation Ltd. (BAIC Motor)

with a three-month time lag. Figures for the statement of income relate to the period of October 1 to September 30.

Figures for the statement of financial position and the reconciliation to equity-method carrying amounts relate to the balance sheet date of September 30.

3 THBV:

Daimler has so far recognized its proportionate share of the profits or losses of There Holding B.V. (THBV) with a one-month time lag.

As of December 31, 2016 the time lag was cancelled. Figures for the statement of financial position at December 31, 2015 relate to the date of acquisition of HERE of December 4, 2015. Figures for the statement of financial position at December 31, 2016 relate to December 31, 2016.

Figures for the 2016 statement of income relate to the period of December 5, 2015 to December 31, 2016.

E.34**Summarized aggregated financial information on minor equity-method investments**

	Associated companies		Joint ventures	
	2016	2015	2016	2015
In millions of euros				
Summarized aggregated financial information (pro rata)				
Profit/loss from continuing operations after taxes	22	6	-28	-84
Profit/loss from discontinued operations after taxes	-	-	-	-
Other comprehensive income/loss	-1	-7	-	-
Total comprehensive income/loss	21	-1	-28	-84

14. Receivables from financial services

Table 7 E.35 shows the components of receivables from financial services.

Types of receivables

Receivables from sales financing with customers include receivables from credit financing for customers who purchased their vehicle either from a dealer or directly from Daimler.

Receivables from sales financing with dealers represent loans for floor financing programs for vehicles sold by the Group's automotive businesses to dealers or loans for assets purchased by dealers from third parties, primarily used vehicles traded in by dealers' customers or real estate such as dealers' show-rooms.

Receivables from finance-lease contracts consist of receivables from leasing contracts for which all substantial risks and rewards incidental to the leasing objects are transferred to the lessee.

At December 31, 2016, finance-lease contracts included non-automotive assets from contracts of the financial services business with third parties (leveraged leases) in the amount of €165 million (December 31, 2015: €238 million).

Maturities of the finance lease contracts are shown in table 7 E.36.

All cash flow effects attributable to receivables from financial services are presented within cash provided by/used for operating activities in the consolidated statement of cash flows.

Allowances

Changes in the allowance account for receivables from financial services are shown in table 7 E.37.

The total expense from the impairment of receivables from financial services amounted to €499 million in 2016 (2015: €502 million).

Credit risks

Table 7 E.38 provides an overview of credit risks included in receivables from financial services.

Receivables not subject to an individual impairment assessment are grouped and subject to collective impairment allowances to cover credit losses.

Further information on financial risks and nature of risks is provided in Note 32.

At December 31, 2016, receivables from financial services with a carrying amount of €5,909 million (31. December 2015: €4,048 million) were pledged as collateral for liabilities from ABS transactions (see also Note 24).

E.35

Receivables from financial services

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Sales financing with customers	14,803	26,288	41,091	13,561	23,900	37,461
Sales financing with dealers	16,302	2,970	19,272	15,944	2,588	18,532
Finance-lease contracts	7,012	14,186	21,198	6,166	12,371	18,537
Gross carrying amount	38,117	43,444	81,561	35,671	38,859	74,530
Allowances for doubtful accounts	-491	-563	-1,054	-516	-500	-1,016
Net carrying amount	37,626	42,881	80,507	35,155	38,359	73,514

E.36

Maturities of the finance lease contracts

	At December 31, 2016				At December 31, 2015			
	< 1 year	1 year up to 5 years	> 5 years	Total	< 1 year	1 year up to 5 years	> 5 years	Total
In millions of euros								
Contractual future lease payments	7,407	13,175	583	21,165	6,315	11,308	407	18,030
Unguaranteed residual values	393	1,880	11	2,284	501	1,954	12	2,467
Gross investment	7,800	15,055	594	23,449	6,816	13,262	419	20,497
Unearned finance income	-788	-1,374	-89	-2,251	-650	-1,216	-94	-1,960
Gross carrying amount	7,012	13,681	505	21,198	6,166	12,046	325	18,537
Allowances for doubtful accounts	-156	-225	-5	-386	-176	-201	-2	-379
Net carrying amount	6,856	13,456	500	20,812	5,990	11,845	323	18,158

15. Marketable debt securities

The marketable debt securities with a carrying amount of €10,748 million (2015: €8,273 million) are part of the Group's liquidity management and comprise debt instruments classified as available-for-sale. When a short-term liquidity requirement is covered with quoted securities, those securities are presented as current assets.

Further information on marketable debt securities is provided in Note 31.

16. Other financial assets

The line item other financial assets presented in the consolidated statement of financial position is comprised as shown in table [E.39](#).

Until June 30, 2016, equity instruments recognized at fair value predominantly comprised the investments in Renault and Nissan (see Note 3).

Financial assets recognized at fair value through profit or loss relate exclusively to derivative financial instruments which are not used in hedge accounting.

At December 31, 2016, receivables with a carrying amount of €648 million (2015: €633 million) were pledged as collateral for liabilities (see also Note 24).

Further information on other financial assets is provided in Note 31.

E.37

Changes in the allowance account for receivables from financial services

	2016	2015
In millions of euros		
Balance at January 1	1,016	921
Additions	491	500
Amounts written off	-290	-212
Reversals	-181	-152
Currency translation and other changes	18	-41
Balance at December 31	1,054	1,016

E.38

Credit risks included in receivables from financial services

	At December 31,	
	2016	2015
In millions of euros		
Receivables, neither past due nor impaired individually	76,127	69,746
Receivables past due, not impaired individually		
less than 30 days	1,796	1,534
30 to 59 days	403	287
60 to 89 days	91	71
90 to 119 days	58	41
120 days or more	138	95
Total	2,486	2,028
Receivables impaired individually	1,894	1,740
Net carrying amount	80,507	73,514

E.39

Other financial assets

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Available-for-sale financial assets	-	811	811	-	3,049	3,049
thereof equity instruments recognized at fair value	-	166	166	-	2,303	2,303
thereof equity instruments carried at cost	-	645	645	-	746	746
Derivative financial instruments used in hedge accounting	653	1,077	1,730	397	966	1,363
Financial assets recognized at fair value through profit or loss	81	25	106	164	39	203
Other receivables and financial assets	2,103	986	3,089	1,985	854	2,839
	2,837	2,899	5,736	2,546	4,908	7,454

17. Other assets

Non-financial other assets are comprised as shown in table [7 E.40](#).

Other expected reimbursements predominantly relate to recovery claims from our suppliers in connection with issued product warranties.

18. Inventories

Inventories are comprised as shown in table [7 E.41](#).

The amount of write-down of inventories to net realizable value recognized as expense in cost of sales was €842 million in 2016 (2015: €501 million). Inventories that are expected to be recovered or settled after more than twelve months amounted to €974 million at December 31, 2016 (December 31, 2015: €930 million) and are primarily spare parts.

As collateral for certain vested employee benefits in Germany, the value of company cars at Daimler AG has until now been pledged as collateral to the Daimler Pension Trust e.V. At December 31, 2015, inventories in an amount of €718 million were pledged as collateral. At December 31, 2016, the pledged assets were supplemented with demonstration cars at Mercedes-Benz Cars and Mercedes-Benz Vans. At December 31, 2016, the total value of vehicles pledged as collateral amounted to €1,008 million.

In addition, inventories with a carrying amount of €296 million at December 31, 2016 (December 31, 2015: €235 million) were pledged as collateral for liabilities from ABS transactions (see also Note 24).

The carrying amount of inventories recognized during the period by taking possession of collateral held as security amounted to €126 million at December 31, 2016 (December 31, 2015: €103 million). Those assets are utilized in the context of normal business operations.

19. Trade receivables

Trade receivables are comprised as shown in table [7 E.42](#).

At December 31, 2016, €49 million of the trade receivables mature after more than one year (2015: €67 million).

Allowances

Table [7 E.43](#) shows changes in the allowance account for trade receivables.

The total expense from the impairment of trade receivables amounted to €97 million in 2016 (2015: €109 million).

Credit risks

Table [7 E.44](#) provides an overview of credit risks included in trade receivables.

Receivables not subject to an individual impairment assessment are grouped and subject to collective impairment allowances to cover credit losses.

Further information on financial risk and types of risk is provided in Note 32.

E.40

Other assets

In millions of euros	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
Reimbursements due to income tax refunds	734	51	785	670	26	696
Reimbursements due to other tax refunds	2,905	38	2,943	2,421	52	2,473
Reimbursements due to the Medicare Act (USA)	–	72	72	–	68	68
Other expected reimbursements	191	173	364	192	157	349
Prepaid expenses	566	112	678	442	87	529
Others	566	221	787	546	264	810
	4,962	667	5,629	4,271	654	4,925

20. Equity

See also the consolidated statement of changes in equity ↗ **E.05**.

Share capital

The share capital (authorized capital) is divided into no-par-value shares. All shares are fully paid up. Each share confers the right to one vote at the Annual Shareholders' Meeting of Daimler AG and, if applicable, with the exception of any new shares potentially not entitled to dividends, to an equal portion of the profits as defined by the dividend distribution decided upon at the Annual Shareholders' Meeting. Each share represents a proportionate amount of approximately €2.87 of the share capital.

Since January 1, 2015, there has been no change in the number of shares outstanding/issued. The number at December 31, 2016 is 1,070 million, unchanged from December 31, 2015.

Approved capital

The Annual Shareholders' Meeting held on April 9, 2014, authorized the Board of Management, with the consent of the Supervisory Board, to increase the share capital of Daimler AG in the period until April 8, 2019 by a total of €1.0 billion in one lump sum or by separate partial amounts at different times by issuing new, registered no-par-value shares in exchange for cash and/or non-cash contributions (Approved Capital 2014). The new shares are generally to be offered to the shareholders for subscription (also by way of indirect subscription pursuant to Section 186 Subsection 5 Sentence 1 of the German Stock Corporation Act (AktG)). Among other things, the Board of Management was authorized with the consent of the Supervisory Board to exclude shareholders' subscription rights under certain conditions and within defined limits.

Approved Capital 2014 has not yet been utilized.

E.41

Inventories

	At December 31,	
	2016	2015
In millions of euros		
Raw materials and manufacturing supplies	2,723	2,643
Work in progress	3,814	3,371
Finished goods, parts and products held for resale	18,609	17,609
Advance payments to suppliers	238	137
	25,384	23,760

E.42

Trade receivables

	At December 31,	
	2016	2015
In millions of euros		
Gross carrying amount	10,954	9,446
Allowances for doubtful accounts	-340	-392
Net carrying amount	10,614	9,054

E.43

Changes in the allowance account for trade receivables

	2016	2015
In millions of euros		
Balance at January 1	392	412
Charged to costs and expenses	-10	66
Amounts written off	-62	-80
Currency translation and other changes	20	-6
Balance at December 31	340	392

E.44

Credit risks included in trade receivables

	At December 31,	
	2016	2015
In millions of euros		
Receivables, neither past due nor impaired individually	7,081	5,554
Receivables past due, not impaired individually		
less than 30 days	813	1,096
30 to 59 days	127	113
60 to 89 days	39	53
90 to 119 days	27	25
120 days or more	142	80
Total	1,148	1,367
Receivables impaired individually	2,385	2,133
Net carrying amount	10,614	9,054

Conditional capital

By resolution of the Annual Shareholders' Meeting on April 1, 2015, the Board of Management is authorized, with the consent of the Supervisory Board, until March 31, 2020 to issue convertible and/or warrant bonds or a combination of these instruments ("bonds") with a total face value of up to €10.0 billion and a maturity of no more than ten years. The Board of Management is allowed to grant the holders of these bonds conversion or warrant rights for new registered no-par-value shares in Daimler AG with an allocable portion of the share capital of up to €500 million in accordance with the details defined in the terms and conditions of the bonds. The bonds can be offered in exchange for cash and/or non-cash contributions, in particular for shares in other companies. The terms and conditions of the bonds can include warranty obligations or conversion obligations. The bonds can be issued once or several times, wholly or in installments, or simultaneously in various tranches as well by affiliates of the Company within the meaning of Sections 15 et seq. of the German Stock Corporation Act (AktG). Among other things, the Board of Management was authorized to exclude shareholders' subscription rights for the bonds under certain conditions and within defined constraints with the consent of the Supervisory Board.

This authorization to issue convertible and/or warrant bonds has not yet been utilized.

In order to fulfill the conditions of the above-mentioned authorization, the Annual Shareholders' Meeting on April 1, 2015 also resolved to increase the share capital conditionally by an amount of up to €500 million (Conditional Capital 2015).

Treasury shares

By resolution of the Annual Shareholders' Meeting on April 1, 2015 the Company is authorized until March 31, 2020 to acquire treasury shares in a volume up to 10% of the share capital issued as of the day of the resolution to be used for all legal purposes. The shares can be used, amongst other things excluding shareholders' subscription rights, for business combinations or to acquire companies or to be sold to third parties for cash at a price that is not significantly lower than the stock-exchange price of the Company's shares. The acquired shares can also be used to fulfill obligations from issued convertible bonds and/or bonds with warrants and to be issued to employees of the Company and employees and board members of the Company's affiliates pursuant to Sections 15 et seq. of the German Stock Corporation Act (AktG). The treasury shares can also be canceled.

The Board of Management is further authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in other defined cases. In a volume up to 5% of the share capital issued as of the day of the resolution, the Company was authorized to acquire treasury shares also by using derivatives (put options, call options, forward purchases or a combination of these instruments), whereas the term of a derivative must not exceed 18 months and must not end later than March 31, 2020.

The authorization to acquire treasury shares was not exercised in the reporting period.

As was the case at December 31, 2015, no treasury shares are held by Daimler AG at December 31, 2016.

Employee share purchase plan

In 2016, 0.6 million Daimler shares representing €1.7 million or 0.05% of the share capital were purchased for a price of €38 million and reissued to employees (2015: 0.3 million Daimler shares representing €0.9 million or 0.03% of the share capital were purchased for a price of €27 million).

Capital reserves

Capital reserves primarily comprise premiums arising on the issue of shares as well as expenses relating to the exercise of stock option plans and the issue of employee shares, effects from changes in ownership interests in consolidated entities and directly attributable related transaction costs.

Retained earnings

Retained earnings comprise the accumulated net profits and losses of all companies included in Daimler's consolidated financial statements, less any profits distributed. In addition, the effects of remeasuring defined benefit plans as well as the related deferred taxes are presented within retained earnings.

Dividend

Under the German Stock Corporation Act (AktG), the dividend is paid out of the distributable profit reported in the annual financial statements of Daimler AG (parent company only) in accordance with the German Commercial Code (HGB). For the year ended December 31, 2016, the Daimler management will propose to the shareholders at the Annual Shareholders' Meeting to pay out €3,477 million of the distributable profit of Daimler AG as a dividend to the shareholders, equivalent to €3.25 per no-par-value share entitled to a dividend (2015: €3,477 million and €3.25 per no-par-value share entitled to a dividend respectively).

Other reserves

Other reserves comprise accumulated unrealized gains/losses from currency translation of the financial statements of the consolidated foreign companies and accumulated unrealized gains/losses on the measurement of financial assets available-for-sale, derivative financial instruments and equity-method investments.

Table [7 E.02](#) shows the details of changes in other reserves in other comprehensive income/loss.

21. Share-based payment

As of December 31, 2016 the Group has the 2013-2016 Performance Phantom Share Plans (PPSP) outstanding. The PPSP are cash-settled share-based payment instruments and are measured at their respective fair values at the balance sheet date. The PPSP are paid out at the end of the stipulated holding period; earlier, pro-rated payoff is possible in the case of benefits leaving the Group only if certain defined conditions are met. PPSP 2012 was paid out as planned in the first quarter of 2016.

Moreover, 50% of the annual bonus of the members of the Board of Management is paid out after a waiting period of one year. The actual payout is determined by the development of Daimler shares compared to an automobile related index (Auto-STOXX). The fair value of this medium-term annual bonus, which depends on this development, is measured by using the intrinsic value at the reporting date.

The pre-tax effects of share-based payment arrangements for the executive managers of the Group and the members of the Board of Management of Daimler AG on the consolidated statement of income and consolidated statement of financial position are shown in table [E.45](#).

Table [E.46](#) shows expenses in the consolidated statement of income resulting from the rights of current members of the Board of Management.

The details shown in table [E.46](#) do not represent any paid or committed remuneration, but refer to expenses calculated according to IFRS. Details of the remuneration of the members of the Board of Management in 2016 can be found in the Remuneration Report. [Management Report from page 142](#)

E.45

Effects of share-based payment

	Expense		Provision	
	2016	2015	At December 31, 2016	2015
In millions of euros				
PPSP	-62	-177	284	409
Medium-term component of annual bonus of the members of the Board of Management	-5	-9	14	15
	-67	-186	298	424

E.46

Expenses in the consolidated statement of income resulting from share-based payments of current members of the Board of Management

	Dr. Dieter Zetsche		Dr. Wolfgang Bernhard		Dr. Christine Hohmann-Dennhardt ¹	
	2016	2015	2016	2015	2016	2015
In millions of euros						
PPSP	-3.8	-6.0	-1.6	-2.4	-	-2.4
Medium-term component of the annual bonus	-1.4	-2.3	-0.6	-0.9	-	-0.9
	Renata Jungo Brüngger ²		Ola Källenius		Wilfried Porth	
	2016	2015	2016	2015	2016	2015
In millions of euros						
PPSP	-0.5	-	-0.7	-0.6	-1.6	-2.4
Medium-term component of the annual bonus	-0.6	-	-0.5	-0.9	-0.5	-0.9
	Hubertus Troska		Bodo Uebber		Prof. Dr. Thomas Weber ³	
	2016	2015	2016	2015	2016	2015
In millions of euros						
PPSP	-1.5	-1.9	-1.8	-2.9	-1.6	-2.5
Medium-term component of the annual bonus	-0.5	-0.9	-0.6	-1.1	-0.5	-0.9

1 Appointment to the Board of Management ended on December 31, 2015.

2 Appointed to the Board of Management as of January 1, 2016.

3 Appointment to the Board of Management ended on December 31, 2016.

Performance Phantom Share Plans

In 2016, the Group adopted a Performance Phantom Share Plan (PPSP), similar to those used from 2005 to 2015, under which eligible employees are granted phantom shares entitling them to receive cash payments after four years. During the four-year period between the allocation of the preliminary phantom shares and the payout of the plan at the end of the term, the phantom shares earn a dividend equivalent in the amount of the actual dividend paid on ordinary Daimler shares. The amount of cash paid to eligible employees at the end of the holding period is based on the number of vested phantom shares (determined over a three-year performance period) multiplied by the quoted price of Daimler's ordinary shares (calculated as an average price over a specified period at the end of the four-year plan period). The vesting period is therefore four years. For the plans granted as of 2009, the quoted price of Daimler's ordinary shares to be used for the payout is limited to 2.5 times the Daimler share price at the date of grant. For the plans granted as of the beginning of 2012, the payout for the members of the Board of Management is also limited to 2.5 times the allotment value used to determine the preliminary number of phantom shares. The limitation of the payout for the members of the Board of Management also includes the dividend equivalents paid out after January 1, 2014.

Determination of the number of phantom shares that vest of the existing PPSP 2013 is based on return on net assets derived from internal targets and return on sales (RoS) compared with benchmarks oriented towards competitors.

The number of phantom shares that vest of the PPSPs granted in 2014 to 2016 will be based on the relative share performance, which measures the development of the price of a share price index based on a competitor group including Daimler, and the RoS compared with benchmarks oriented towards competitors. Special rules apply for the members of the Board of Management: Daimler's RoS must be not equal to but higher than that of the competitors in order to achieve the same target achievement as the other plan participants. For the PPSP granted since 2015, an additional limit on target achievement was agreed upon for the reference parameter RoS for the members of the Board of Management. In the case of target achievement between 195% and 200%, an additional comparison is made on the basis of the RoS achieved in absolute terms. If the actual RoS for the automotive business is below the strategic target (currently 9%) in the third year of the performance period, target achievement is limited to 195%.

The Group recognizes a provision for awarding the PPSP in the consolidated statement of financial position. Since payment per vested phantom share depends on the quoted price of Daimler's ordinary shares, that quoted price essentially represents the fair value of each phantom share. The proportionate remuneration expenses from the PPSP recognized in the individual years are determined on the price of Daimler ordinary shares and the estimated target achievement.

22. Pensions and similar obligations

Table [7 E.47](#) shows the composition of provisions for pension benefit plans and similar obligations.

At the Daimler Group, defined benefit pension obligations exist as well as, to a smaller extent, defined contribution pension obligations, specific to the various countries. In addition, health-care benefit obligations are recognized outside Germany.

Defined benefit pension plans

Provisions for pension obligations are made for defined commitments to active and former employees of the Daimler Group and their survivors. The defined benefit pension plans provided by Daimler generally vary according to the economic, tax and legal circumstances of the country concerned. Most of the defined benefit pension plans also provide benefits in the case of invalidity and death.

The Group's main German and non-German pension plans are described below.

German plans

Most employees in Germany have defined benefit pension plans; most of the pension plans for the active workforce are based on individual retirement benefit accounts, to which the Company makes annual contributions. The amount of the contributions for employees paid according to wage-tariff agreements depends on the tariff classification in the respective year, and for executives it depends on their respective income. For the commitments to retirement benefits made until 2011, the contributions continue to be converted into capital components and credited to the individual pension account with the application of fixed factors related to each employee's age. The conversion factors include a fixed value increase. The pension plans were newly structured for new entrants in 2011 to reduce the risks associated with defined benefit plans. New entrants now benefit from value increases of the contributions through an investment fund with a special lifecycle model. The Company guarantees at a minimum the value of the contributions paid in. Pension payments are made either as a life annuity, twelve annual installments, or a single lump sum.

In addition, previously concluded defined benefit plans exist which primarily depend on employees' wage-tariff classification upon transition into the benefit phase and which foresee a life annuity.

As well as the employer-financed pension plans granted by German companies, the employees of some companies are also offered various earnings-conversion models.

Most of the pension obligations in Germany relating to defined benefit pension plans are funded by assets invested in long-term outsourced funds. Contractual trust arrangements (CTA) exist between Daimler AG as well as some subsidiaries in Germany and the Daimler Pension Trust e.V. The Daimler Pension Trust e.V. acts as a collateral trust fund.

In Germany, there are no statutory or regulatory minimum funding requirements.

Non-German plans

Significant plans exist primarily in the United States and Japan. They comprise plans relating to final salaries as well as plans relating to salary based components. Most of the obligations outside Germany from defined benefit pension plans are funded by assets outplaced into long-term investment funds.

Risks from defined benefit pension plans

The general requirements with regard to retirement benefit models are laid down in the Pension Policy, which has Group-wide validity. Accordingly, the committed benefits are intended to contribute to additional financial security during retirement, and in the case of death or invalidity to be capable of being planned and fulfilled by the respective company of the Group and to have a low-risk structure. In addition, a committee exists that approves new pension plans and amendments to existing pension plans as well as guidelines relating to company retirement benefits.

The obligations from defined benefit pension plans and the pension plan assets can be subject to fluctuations over time. This can cause the funded status to be negatively or positively impacted. Fluctuations in the defined benefit pension obligations result at the Daimler Group in particular from changes in financial assumptions such as discount rates and increases in the cost of living, but also from changes in demographic assumptions such as adjusted life expectancies. With most of the German plans, expected long-term wage and salary increases do not have an impact on the amount of the obligation.

The fair value of plan assets is predominantly determined by the situation on the capital markets. Unfavorable developments, especially of equity prices and fixed-interest securities, could reduce that fair value. The diversification of fund assets, the engagement of asset managers using quantitative and qualitative analyses, and the continual monitoring of performance and risk help to reduce associated investment risk. The Group regularly makes additional contributions to the plan assets in order to cover future obligations from defined benefit pension plans. Effective June 30, 2016, the Group made an extraordinary contribution of €1.8 billion into the German pension plan assets, in order to sustainably strengthen them, in the form of its shares in Renault and Nissan. In 2015, extraordinary contributions of €1.0 billion were paid into the German pension plan assets and contributions of €0.2 billion were made into the US pension plan assets.

As a general principle, it is the Group's objective to design new pension plans as defined benefit plans based on capital components or on annual contributions, or as defined contribution plans.

E.47

Composition of provisions for pensions and similar obligations

	December 31,	
	2016	2015
In millions of euros		
Provision for pension benefits	7,847	7,534
Provision for other post-employment benefits	1,187	1,129
	9,034	8,663

Reconciliation of the net obligation from defined benefit pension plans

The development of the relevant factors is shown in table [7 E.48](#).

Composition of plan assets

Plan assets and income from plan assets are used solely to pay pension benefits and to administer the plans.

The composition of the Group's pension plan assets is shown in table [7 E.49](#).

Market prices are available for equities and bonds due to their listing in active markets. Most of the bonds have investment grade ratings. They include government bonds of very good creditworthiness.

The investment strategy is reviewed regularly and adjusted if deemed necessary. The investment strategy is determined by Investment Committees, which are generally composed of representatives of the Finance and Human Resources departments. Several pension plans use dedicated liability driven investment approaches to take the structure of pension obligations into account in the investment process.

E.48

Present value of defined benefit pension obligations and fair value of plan assets

	December 31, 2016			December 31, 2015		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
In millions of euros						
Present value of the defined benefit obligation at January 1	27,640	23,803	3,837	30,127	26,496	3,631
Current service cost	601	512	89	716	602	114
Interest cost	750	595	155	661	509	152
Contributions by plan participants	71	66	5	69	65	4
Actuarial gains (-)/losses from changes in demographic assumptions	-11	6	-17	-464	-435	-29
Actuarial gains (-)/losses from changes in financial assumptions	3,021	2,733	288	-2,762	-2,614	-148
Actuarial gains (-)/losses from experience adjustments	5	-21	26	-94	-99	5
Actuarial gains (-)/losses	3,015	2,718	297	-3,320	-3,148	-172
Past service cost, curtailments and settlements	-37	20	-57	-15	21	-36
Pension benefits paid	-932	-748	-184	-894	-733	-161
Currency exchange-rate changes and other changes	65	16	49	296	-9	305
Present value of the defined benefit obligation at December 31	31,173	26,982	4,191	27,640	23,803	3,837
Fair value of plan assets at January 1	20,226	17,306	2,920	18,581	15,973	2,608
Interest income from plan assets	582	465	117	419	308	111
Actuarial gains/losses (-)	994	830	164	-101	-	-101
Actual return on plan assets	1,576	1,295	281	318	308	10
Contributions by the employer	2,427	2,337	90	1,900	1,640	260
Contributions by plan participants	71	66	5	70	65	5
Settlements	-52	-	-52	-12	-	-12
Pension benefits paid	-868	-705	-163	-829	-688	-141
Currency exchange-rate changes and other changes	4	16	-12	198	8	190
Fair value of plan assets at December 31	23,384	20,315	3,069	20,226	17,306	2,920
Funded status	-7,789	-6,667	-1,122	-7,414	-6,497	-917
thereof recognized in other assets	58	-	58	120	-	120
thereof recognized in provisions for pensions and similar obligations	-7,847	-6,667	-1,180	-7,534	-6,497	-1,037

Pension cost

The components of pension cost included in the consolidated statement of income are shown in table [E.50](#).

E.49**Composition of plan assets**

	At December 31, 2016			At December 31, 2015		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
In millions of euros						
Energy, commodities and utilities	1,048	907	141	896	799	97
Financials	1,366	1,147	219	1,466	1,269	197
Healthcare	664	559	105	641	544	97
Industrials ¹	2,893	2,783	110	658	578	80
Consumer goods	1,374	1,146	228	1,440	1,220	220
Technology and telecommunication	1,167	981	186	1,229	1,071	158
Others	43	-	43	50	-	50
Equities	8,555	7,523	1,032	6,380	5,481	899
Government bonds in EUR	1,811	1,799	12	2,353	2,340	13
Government bonds in USD	2,130	1,598	532	1,951	1,479	472
Government bonds in other currencies	497	-	497	458	-	458
Government bonds	4,438	3,397	1,041	4,762	3,819	943
Corporate bonds in EUR	3,259	3,224	35	2,603	2,594	9
Corporate bonds in USD	4,751	4,310	441	3,161	2,637	524
Corporate bonds in other currencies	202	13	189	205	21	184
Corporate bonds	8,212	7,547	665	5,969	5,252	717
Securitized bonds	57	5	52	64	4	60
Bonds	12,707	10,949	1,758	10,795	9,075	1,720
Other exchange-traded instruments	5	3	2	2	1	1
Total exchange-traded instruments	21,267	18,475	2,792	17,177	14,557	2,620
Alternative investments ²	555	480	75	616	507	109
Real estate	570	450	120	493	395	98
Other non-exchange-traded instruments	99	57	42	255	219	36
Cash and cash equivalents	893	853	40	1,685	1,628	57
Total non-exchange-traded instruments	2,117	1,840	277	3,049	2,749	300
Fair value of plan assets	23,384	20,315	3,069	20,226	17,306	2,920
thereof fair value of own transferable financial instruments	-	-	-	-	-	-
thereof fair value of self-used plan assets	64	64	-	73	73	-

1 As of December 31, 2016, including the shares in Renault and Nissan in the amount of €2,178 million.

2 Alternative investments mainly comprise private equity.

E.50**Pension cost**

	2016			2015		
	Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
In millions of euros						
Current service cost	-601	-512	-89	-716	-602	-114
Past service cost, curtailments and settlements	-15	-20	5	3	-21	24
Net interest expense	-173	-130	-43	-245	-201	-44
Net interest income	5	-	5	3	-	3
	-784	-662	-122	-955	-824	-131

Measurement assumptions

The measurement date for the Group's defined benefit pension obligations and plan assets is generally December 31. The measurement date for the Group's net periodic pension cost is generally January 1. The assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the countries in which the pension plans are situated.

Calculation of the defined benefit obligation uses life expectancy for the German plans based on the 2005 G mortality tables of K. Heubeck. For Non-German plans, comparable country-specific calculation methods are used.

Table [7 E.51](#) shows the significant weighted average measurement factors used to calculate pension benefit obligations.

Sensitivity analysis

An increase or decrease in the main actuarial assumptions would affect the present value of the defined benefit pension obligations as shown in table [7 E.52](#).

The calculations carried out by actuaries were done in isolation for the evaluation parameters regarded as important. This means that if there is a simultaneous change in several parameters, the individual results cannot be summed due to correlation effects. With a change in the parameters, the sensitivities shown cannot be used to derive a linear development of the defined benefit obligation.

For the calculation of the sensitivity of life expectancy, by means of fixed (non-age-dependent) factors for a reference person, a life expectancy one year higher or one year lower was achieved.

Effect on future cash flows

Daimler currently plans to make contributions of €0.7 billion to its pension plans for the year 2017; the final amount is usually set in the fourth quarter of a financial year. In addition, the Group expects to make pension benefit payments of €1.0 billion in 2017.

The weighted average duration of the defined benefit obligations is shown in table [7 E.53](#).

Defined contribution pension plans

Under defined contribution pension plans, Daimler makes defined contributions to external insurance policies or investment funds. There are fundamentally no further contractual obligations or risks for Daimler in excess of the defined contributions. The Group also pays contributions to governmental pension schemes. In 2016, the total cost from defined contribution plans amounted to €1.5 billion (2015: €1.5 billion). Of those payments €1.4 billion (2015: €1.4 billion) was related to governmental pension plans.

Multi-employer plans

Daimler participates in some collectively bargained defined benefit pension plans maintained by more than one employer. The Group presents several of these plans in its consolidated financial statements as defined contribution plans because the information required to use defined benefit accounting is not available in a timely manner or in sufficient detail. The Group cannot exercise direct control over such plans and the plan trustees have no legal obligation to share information directly with participating employers. Higher contributions by the Group to such a pension plan could be required in particular when an underfunded status exceeds a specific level. Exit from such a plan can lead to the companies involved having to offset the potential future shortfall relating to their share of the plan. Furthermore, the possibility exists that Daimler can be liable for other participants' obligations. The probability of occurrence of the risk to the Group from these plans continues to be classified as very low at December 31, 2016.

Other post-employment benefits

Certain foreign subsidiaries of Daimler, mainly in the United States, provide their employees with post-employment health care benefits with defined entitlements, which have to be accounted for as defined benefit plans. These obligations are funded to a small extent through reimbursement rights and plan assets. Table [7 E.54](#) shows key data for other post-employment benefits.

Significant risks in connection with commitments for other post-employment benefits (medical care) relate to rising healthcare costs and lower contributions to those costs from the public sector. In addition, these plans are subject to the usual risks for defined benefit plans, in particular the risk of changes in discount rates.

E.51**Significant factors for the calculation of pension benefit obligations**

	German Plans At December 31,		Non-German Plans At December 31,	
	2016	2015	2016	2015
In percent				
Discount rates	1.9	2.6	3.9	4.1
Expected increase in cost of living ¹	1.7	1.7	-	-

1 For German Plans, expected increases in cost of living may affect – depending on the design of the pension plan – the obligation to the Group's active employees as well as retirees and their survivors. For most non-German Plans, expected increases in cost of living do not have a material impact on the amount of the obligation.

E.52**Sensitivity analysis for the present value of defined benefit pension obligation**

		December 31, 2016			December 31, 2015		
		Total	German Plans	Non-German Plans	Total	German Plans	Non-German Plans
In millions of euros							
Sensitivity for discount rates	+ 0.25%	-1,228	-1,040	-188	-1,032	-889	-143
Sensitivity for discount rates	- 0.25%	1,223	1,090	133	1,025	903	122
Sensitivity for expected increases in cost of living	+ 0.10%	76	83	-7	77	65	12
Sensitivity for expected increases in cost of living	- 0.10%	-149	-100	-49	-115	-104	-11
Sensitivity for life expectancy	+ 1 year	449	407	42	375	354	21
Sensitivity for life expectancy	- 1 year	-480	-375	-105	-412	-359	-53

E.53**Weighted average duration of the defined benefit obligations**

	2016	2015
In years		
German Plans	17	16
Non-German Plans	17	16

E.54**Key data for other post-employment benefits**

	2016	2015
In millions of euros		
Present value of defined benefit obligations	1,187	1,129
Fair value of plan assets and reimbursement rights	72	68
Funded status	-1,115	-1,061
Net periodic cost for other post-employment benefits	-75	-21

23. Provisions for other risks

The development of provisions for other risks is summarized in table [7 E.55](#).

Product warranties

Daimler issues various types of product warranties, under which it generally guarantees the performance of products delivered and services rendered for a certain period. The provision for these product warranties covers expected costs for legal and contractual warranty claims as well as expected costs for goodwill concessions and recall campaigns. The utilization date of product warranties depends on the incidence of the warranty claims and can span the entire term of the product warranties. The cash outflow for non-current product warranties is principally expected within a period until 2019.

Personnel and social costs

Provisions for personnel and social costs primarily comprise expected expenses of the Group for employee anniversary bonuses, profit sharing arrangements and management bonuses as well as early retirement and partial retirement plans. The additions recorded to the provisions for profit sharing and management bonuses in the reporting year usually result in cash outflows in the following year. The cash outflow for non-current provisions for personnel and social costs is primarily expected within a period until 2027.

Other

Provisions for other risks include obligations for expected reductions in revenue already recognized, such as bonuses, discounts and other price reduction commitments. They also include expected costs in connection with liability and litigation risks, provisions for optimization programs, provisions for environmental protection risks, as well as provisions for other taxes and various other risks which cannot be allocated to any other class of provision.

Further information on other provisions for other risks is provided in Notes 5 and 29.

E.55

Provisions for other risks

	Product warranties	Personnel and social costs	Other	Total
In millions of euros				
Balance at December 31, 2015	5,661	4,364	5,805	15,830
thereof current	2,589	2,189	4,932	9,710
thereof non-current	3,072	2,175	873	6,120
Additions	3,148	2,077	3,842	9,067
Utilizations	-2,609	-2,057	-3,432	-8,098
Reversals	-155	-170	-460	-785
Compounding and effects from changes in discount rates	9	102	13	124
Currency translation and other changes	48	-56	-71	-79
Balance at December 31, 2016	6,102	4,260	5,697	16,059
thereof current	2,512	2,181	4,734	9,427
thereof non-current	3,590	2,079	963	6,632

24. Financing liabilities

The composition of financing liabilities is shown in table [7 E.56](#).

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards to the Group as lessee. Future minimum lease payments under finance leases amounted to €361 million at December 31, 2016 (2015: €411 million). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities is shown in table [7 E.57](#).

E.56

Financing liabilities

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Notes/bonds	13,820	49,260	63,080	10,238	41,173	51,411
Commercial paper	1,701	–	1,701	2,961	–	2,961
Liabilities to financial institutions	16,528	13,146	29,674	15,226	12,085	27,311
Deposits in the direct banking business	8,876	2,766	11,642	8,012	2,520	10,532
Liabilities from ABS transactions	5,823	4,745	10,568	3,990	3,388	7,378
Liabilities from finance leases	30	203	233	43	220	263
Loans, other financing liabilities	510	278	788	841	445	1,286
	47,288	70,398	117,686	41,311	59,831	101,142

E.57

Reconciliation of minimum lease payments to liabilities from finance lease arrangements

	Future minimum lease payments at December 31,		Interest included in future minimum lease payments at December 31,		Liabilities from finance lease arrangements at December 31,	
	2016	2015	2016	2015	2016	2015
In millions of euros						
Maturity						
within one year	42	56	12	13	30	43
between one and five years	161	155	68	70	93	85
later than five years	158	200	48	65	110	135
	361	411	128	148	233	263

25. Other financial liabilities

The composition of other financial liabilities is shown in table [7 E.58](#).

Financial liabilities recognized at fair value through profit or loss relate exclusively to derivative financial instruments which are not used in hedge accounting.

Further information on other financial liabilities is provided in Note 31.

26. Deferred income

The composition of deferred income is shown in table [7 E.59](#).

27. Other liabilities

Table [7 E.60](#) shows the composition of other liabilities.

E.58

Other financial liabilities

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Derivative financial instruments used in hedge accounting	1,312	1,151	2,463	2,203	917	3,120
Financial liabilities recognized at fair value through profit or loss	107	79	186	150	113	263
Liabilities from residual value guarantees	1,062	1,230	2,292	960	1,144	2,104
Liabilities from wages and salaries	1,107	48	1,155	971	28	999
Accrued interest expenses	883	–	883	795	–	795
Deposits received	477	556	1,033	422	555	977
Other	4,594	263	4,857	3,983	119	4,102
Miscellaneous other financial liabilities	8,123	2,097	10,220	7,131	1,846	8,977
	9,542	3,327	12,869	9,484	2,876	12,360

E.59

Deferred income and prepaid expenses

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Deferral of revenue from multi-year service and maintenance agreements	1,748	3,450	5,198	1,336	2,983	4,319
Deferral of sales revenue received from sales with residual-value guarantees	498	950	1,448	446	928	1,374
Deferral of advance rental payments received from operating lease arrangements	839	823	1,662	799	662	1,461
Other deferred income	359	336	695	307	278	585
	3,444	5,559	9,003	2,888	4,851	7,739

E.60

Other liabilities

	At December 31, 2016			At December 31, 2015		
	Current	Non-current	Total	Current	Non-current	Total
In millions of euros						
Income tax liabilities	304	10	314	202	8	210
Other tax liabilities	1,792	1	1,793	1,800	21	1,821
Miscellaneous other liabilities	342	4	346	361	1	362
	2,438	15	2,453	2,363	30	2,393

28. Consolidated statement of cash flows

Calculation of funds

At December 31, 2016, cash and cash equivalents included restricted funds of €1 million (2015: €183 million). The restricted funds primarily relate to subsidiaries where exchange controls apply so that the Group has restricted access to the funds.

Cash provided by operating activities

Changes in other operating assets and liabilities are shown in table [7 E.61](#).

Table [7 E.62](#) shows cash flows included in cash provided by operating activities.

The line item other non-cash expense and income within the reconciliation of profit before income taxes to cash provided by operating activities in the reporting year primarily comprised the Group's share in the profit/loss of companies accounted for using the equity method. An additional effect resulted from the income related to the contribution of the shares of Renault S.A. and Nissan Motor Company Ltd. into the pension plan assets. In the prior year, the reconciling item mainly comprised the Group's share in the profit/loss of companies accounted for using the equity method.

Cash used for investing activities

Table [7 E.63](#) shows the acquired assets and liabilities related to the acquisition of Athlon Car Lease International B.V. The amounts are based on the preliminary purchase price allocation.

The consideration paid for the acquisition comprised the purchase price amounting to €1,100 million and financing liabilities settled upon finalizing the transaction in an amount of €2,741 million. The consideration was reduced by the acquired cash and cash equivalents amounting to €191 million.

Cash provided by financing activities

Cash provided by financing activities includes cash flows from hedging the currency risks of financial liabilities. In 2016, cash provided by financing activities included payments for the reduction of outstanding finance lease liabilities of €43 million (2015: €48 million).

E.61

Changes in other operating assets and liabilities

	2016	2015
In millions of euros		
Provisions	341	564
Financial instruments	165	-82
Miscellaneous other assets and liabilities	1,747	1,715
	2,253	2,197

E.62

Cash flows included in cash provided by operating activities

	2016	2015
In millions of euros		
Interest paid	-229	-311
Interest received	211	152
Dividends received	188	135

E.63

Acquired assets and liabilities

	2016
In millions of euros	
Intangible assets	637
Equipment on operating leases	3,560
Other assets	389
Financing liabilities	506
Other liabilities	417

29. Legal proceedings

Various legal proceedings, claims and governmental investigations (legal proceedings) are pending against Daimler AG and its subsidiaries on a wide range of topics, including vehicle safety, emissions, fuel economy, financial services, dealer, supplier and other contractual relationships, intellectual property rights, product warranties, environmental matters, antitrust matters and shareholder matters. Legal proceedings relating to products deal with claims on account of alleged vehicle defects. Some of these claims are asserted by way of class action suits. 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.

Regarding expenses of €400 million incurred in connection with legal proceedings in 2016 no further information is disclosed in accordance with IAS 37.92.

In early 2016, several consumer class-action lawsuits were filed against Mercedes-Benz USA, LLC (MBUSA) in federal courts in the United States. The main allegation was the use of devices that impermissibly impair the effectiveness of emission control systems in reducing nitrogen-oxide (NOx) emissions and which cause excessive emissions from vehicles with diesel engines. In addition, plaintiffs alleged that consumers were deliberately deceived in connection with the advertising of Mercedes-Benz diesel vehicles. Those consumer class actions were consolidated into one class action pending against both Daimler AG and MBUSA in the US District Court for the District of New Jersey, in which the plaintiffs asserted various grounds for monetary relief on behalf of a nation-wide class of persons or entities who owned or leased certain models of Mercedes-Benz diesel vehicles as of February 18, 2016. Daimler AG and MBUSA moved to dismiss the lawsuit in its entirety. By order dated December 6, 2016, the court granted Daimler AG's and MBUSA's motion to dismiss and dismissed the lawsuit without prejudice, based on plaintiffs' failure to allege with sufficient specificity the advertising that they contended had misled them. On December 16, 2016, plaintiffs filed an amended class action complaint in the same court making similar allegations. The amended complaint also adds as defendants Robert Bosch LLC and Robert Bosch GmbH (collectively "Bosch"), and alleges that Daimler AG and MBUSA conspired with Bosch to deceive U.S. regulators and consumers. Daimler AG and MBUSA view the lawsuit as being without merit and will defend against the claims.

Another consumer class-action lawsuit against Daimler AG and other companies of the Group containing similar allegations was filed in Canada in April 2016. Daimler also regards the Canadian lawsuit as being without merit and will defend vigorously against the claims.

In addition, several state and federal authorities, including in Europe and the United States, have inquired about and are investigating test results, the emission control systems used in Mercedes-Benz diesel vehicles and Daimler's interaction with the relevant state and federal authorities as well as related legal issues and implications, including, but not limited to, under applicable environmental, securities and criminal laws. These authorities include, among others, the U.S. Department of Justice (DOJ), which in April 2016 requested that Daimler AG review its certification and admissions processes related to exhaust emissions of diesel vehicles in the United States by way of an internal investigation in cooperation with the DOJ, the U.S. Environmental Protection Agency (EPA), the California Air Resources Board (CARB) and other state authorities, the U.S. Securities and Exchange Commission (SEC), the Stuttgart district attorney's office, to which Daimler offered its cooperation and has provided information, and the diesel emissions committee of inquiry of the German Parliament. Daimler is cooperating fully with the DOJ and the other authorities. As these inquiries, investigations and the replies to these information requests as well as Daimler's internal investigation are ongoing, we are not disclosing any further information in accordance with IAS 37.92.

In late August 2016, Mercedes-Benz Canada (MB Canada) was added as a defendant to a putative nation-wide class action pending in Ontario Superior Court. The main allegation in the matter is that MB Canada, along with Takata entities as well as many other companies which sold vehicles with Takata airbag inflators installed in them, was allegedly negligent in selling such vehicles, purportedly not recalling them quickly enough, and failing to provide an allegedly adequate replacement airbag inflator. Daimler AG regards these cases as being without merit, and MB Canada will defend vigorously against the claims. Moreover, in January 2017, Mercedes-Benz USA, LLC (MBUSA) was named as defendant in a lawsuit filed by the State of New Mexico against Takata entities as well as many other companies which sold vehicles with Takata airbag inflators installed in them. On behalf of consumers resident in the state of New Mexico, accusations similar to those raised in the aforementioned Canada class action are made against the defendants. Daimler AG regards the claims brought as to Mercedes-Benz vehicles as being without merit, and MBUSA will defend vigorously against the claims.

On June 23, 2016 the German Federal Cartel Office carried out dawn raids at several car manufacturers and suppliers, including Daimler AG, with regard to steel purchasing. Daimler is cooperating in full with the authority. Pursuant to IAS 37.92, no further details are disclosed on this antitrust investigation, so as not to prejudice the result of the investigation.

In a settlement decision adopted on July 19, 2016, the European Commission concluded the trucks antitrust proceedings against Daimler AG and other truck manufacturers that commenced in 2011. The European Commission imposed a fine on Daimler AG in the amount of €1,009 million which has, in the meantime, been paid. During the entire proceedings, Daimler AG cooperated closely with the authorities and the European Commission took into account the company's cooperation by reducing the fine imposed. Daimler had recognized a provision for the fine.

The Federal Republic of Germany initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and Toll Collect GbR and submitted its statement of claims in August 2005. It seeks damages, contractual penalties and the transfer of intellectual property rights to Toll Collect GmbH. In particular, the Federal Republic of Germany is claiming

- lost revenue of €3.33 billion for the period September 1, 2003 through December 31, 2004 plus interest at 5% per annum above the respective base rate since submission of claims (an amount of €2 billion as at the date of September 29, 2014),
- contractual penalties of approximately €1.65 billion through July 31, 2005 plus interest at 5% per annum above the respective base rate since submission of claims (an amount of €225 million as at the date of September 29, 2014) and
- refinancing costs of €196 million.

Since, among other things, some of the contractual penalties are dependent on time and further claims for contractual penalties have been asserted by the Federal Republic of Germany, the amount claimed as contractual penalties may increase. The defendants submitted their response to the statement of claims on June 30, 2006. The Federal Republic of Germany delivered its reply to the arbitrators on February 15, 2007, and the defendants delivered their rebuttal on October 1, 2007 (see also Note 30). The arbitrators held the first hearing on June 16 and 17, 2008. Additional briefs from the claimant and the defendants have been filed since then. A hearing of witnesses and experts took place between December 6 and 14, 2010. The parties submitted further written statements on July 15 and November 15, 2011. After the Tribunal's President resigned for personal reasons as of March 30, 2012, the new President was determined by the Administrative Court in Berlin as of October 29, 2012. The arbitrators held further hearings in May and October 2014 as well as in June 2015 and June 2016. In accordance with IAS 37.92, no further information is disclosed regarding the arbitration proceedings and the related risks to the Company, in particular regarding the measures taken by the Company, in order to prevent negative effects on the proceedings. Daimler believes the claims of the Federal Republic of Germany are without merit and will continue to defend itself vigorously.

The Group recognizes provisions in connection with pending or threatened proceedings to the extent a loss is probable and can be reasonably estimated. Such provisions are reflected in the Group's consolidated financial statements and are based on estimates. Risks resulting from legal proceedings, however, sometimes cannot be assessed reliably or only to a limited extent. Consequently, provisions accrued for some legal proceedings may turn out to be insufficient once such proceedings have ended. Daimler may also become liable for payments in legal proceedings no provisions were established for. Although the final resolution of any such proceedings could materially affect Daimler's operating results and cash flows for a particular reporting period, Daimler believes that it should not exert a sustained influence on the Group's financial position.

30. Financial guarantees, contingent liabilities and other financial obligations

Financial guarantees

Financial guarantees principally represent contractual arrangements. These guarantees generally provide that in the event of default or non-payment by the primary debtor, the Group will be required to settle such financial obligations. The maximum potential obligation resulting from these guarantees amounted to €784 million at December 31, 2016 (2015: €1,033 million) and includes liabilities recognized in the amount of €169 million (2015: €117 million).

Contingent liabilities

Table [7 E.64](#) shows estimates of the financial effects of contingent liabilities at December 31.

E.64

Composition of contingent liabilities

	At December 31,	
	2016	2015
In millions of euros		
Guarantees under buyback commitments	1,726	1,560
Other contingent liabilities	268	360
	1,994	1,920

Guarantees under buyback commitments represent arrangements whereby the Group guarantees specified trade-in or resale values for sold vehicles. Such guarantees provide the holder with the right to return purchased vehicles to the Group, the right being primarily contingent on the future purchase of vehicles or services. The provisions recognized in connection with these buyback commitments, amounted to €95 million at December 31, 2016 (2015: €85 million). On the other hand, residual value guarantees related to arrangements for which revenue recognition is precluded due to the Group's obligation to repurchase assets are included in other financial liabilities.

Other contingent liabilities comprise contingent liabilities which constitute other guarantees and potential obligations from recall actions as well as potential obligations from other tax and customs duty risks. At December 31, 2016, the best estimate for potential obligations from other contingent liabilities for which no provisions had yet been recognized was €268 million (2015: €360 million). In the context of the industry-wide problems with Takata airbags and the subsequent recalls for Mercedes-Benz vehicles, possible additional obligations due to the ongoing technical investigations and official rulings cannot be ruled out.

In 2002, our subsidiary Daimler Financial Services AG, Deutsche Telekom AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) entered into a consortium agreement in order to jointly develop, install and operate under a contract with the Federal Republic of Germany (operating agreement) a system for the electronic collection of tolls for all commercial vehicles over 12 tons gross vehicle weight using German highways. After concluding supplementary agreements to the operating agreement with the Federal Republic of Germany tolls are now charged for vehicles over 7.5 tons gross vehicle weight and on specific sections of federal highways. Daimler Financial Services AG and Deutsche Telekom AG each hold a 45% equity interest and Cofiroute holds the remaining 10% equity interest in both the consortium (Toll Collect GbR) and the joint venture company (Toll Collect GmbH) (together Toll Collect).

According to the operating agreement, the toll collection system had to be operational no later than August 31, 2003. After a delay of the launch date of the toll collection system, which resulted in a loss of revenue for Toll Collect and in payments of contractual penalties for delays, the toll collection system was introduced on January 1, 2005 with on-board units that allowed for slightly less than full technical performance in accordance with the technical specification (phase 1). On January 1, 2006, the toll collection system was installed and started to operate with full effectiveness as specified in the operating agreement (phase 2). On December 20, 2005, Toll Collect GmbH received a preliminary operating permit as specified in the operating agreement. Toll Collect GmbH expects to receive the final operating permit, and continues to operate the toll collection system under the preliminary operating permit in the interim.

Failure to perform various obligations under the operating agreement may result in penalties, additional revenue reductions and damage claims that could become significant over time.

However, penalties and revenue reductions are capped at €150 million per year until the final operating permit has been issued and at €100 million per year following the issuance of the final operating permit. These cap amounts are subject to a 3% increase for every year of operation.

Beginning in June 2006, the Federal Republic of Germany began reducing monthly payments to Toll Collect GmbH by €8 million in partial set-off against amounts claimed in the arbitration proceedings referred to below. This offsetting may require the consortium members to provide additional operating funds to Toll Collect GmbH.

The operating agreement calls for the submission of all disputes related to the toll collection system to arbitration. The Federal Republic of Germany has initiated arbitration proceedings against Daimler Financial Services AG, Deutsche Telekom AG and the consortium. According to the statement of claims received in August 2005, the Federal Republic of Germany is seeking damages including contractual penalties and reimbursement of lost revenue that allegedly arose from delays in the operability of the toll collection system. See Note 29 for additional information.

Each of the consortium members (including Daimler Financial Services AG) has provided guarantees supporting the obligations of Toll Collect GmbH towards the Federal Republic of Germany relating to the completion and operation of the toll collection system, which are subject to specific triggering events. In addition, Daimler AG has guaranteed bank loans obtained by Toll Collect GmbH. The guarantees are described in detail below:

- *Guarantee of bank loans.* Daimler AG issued a guarantee to third parties up to a maximum amount of €100 million for bank loans which could be obtained by Toll Collect GmbH. This amount represents the Group's 50% share of Toll Collect GmbH's external financing guaranteed by its shareholders.
- *Equity maintenance undertaking.* The consortium members have the obligation to contribute, on a joint and several basis, additional funds to Toll Collect GmbH as may be necessary for Toll Collect GmbH to maintain a minimum equity (based on German Commercial Code accounting principles) of 15% of total assets (a so-called "equity maintenance undertaking"). This obligation will terminate on August 31, 2018, when the extended operating agreement expires, or earlier if the agreement is terminated. Such obligation may arise if Toll Collect GmbH is subject to revenue reductions caused by underperformance, if the Federal Republic of Germany is successful in claiming lost revenue against Toll Collect GmbH for any period the system was not fully operational, or if Toll Collect GmbH incurs penalties that may become payable under the above mentioned agreements. If such penalties, revenue reductions or other events reduce Toll Collect GmbH's equity to a level below the minimum equity percentage agreed upon, the consortium members are obligated to fund Toll Collect GmbH's operations to the extent necessary to reach the required minimum equity.

Cofiroute's risks and obligations are limited to €70 million. Daimler Financial Services AG and Deutsche Telekom AG are jointly obliged to indemnify Cofiroute for amounts exceeding this limitation.

While Daimler's maximum future obligation resulting from the guarantee of the bank loan can be determined (2016: €100 million), the Group is unable to reasonably estimate the amount or range of amounts of possible loss resulting from the financial guarantee in form of the equity maintenance undertaking due to the various uncertainties described above, although it could be material. Only the guarantee for the bank loan is included in the above disclosures for financial guarantees.

Obligations from product warranties and extended product warranties are not included in the above disclosures. See Note 23 for provisions relating to such obligations.

Other financial obligations

The Group has **financial obligations resulting from non-cancelable long-term rental agreements and operating leases for property, plant and equipment**; the contracts partially include renewal or purchase options and price-escalation clauses. In 2016, Daimler recognized expense payments from operating leases of €539 million (2015: €491 million). Table [E.65](#) provides an overview of when future minimum lease payments under non-cancelable long-term rental and lease agreements fall due (nominal amounts).

Furthermore, other financial obligations exist from the **acquisition of intangible assets, property, plant and equipment and lease property** of €3,977 million (2015: €2,867 million).

In addition, the Group had issued **irrevocable loan commitments** as of December 31, 2016. These loan commitments had not been utilized as of that date. An overview of the maturities of irrevocable loan commitments is shown in table [E.79](#) in Note 32.

E.65

Future minimum lease payments under non-cancelable long-term rental and lease agreements (nominal amounts)

In millions of euros	At December 31,	
	2016	2015
Maturity		
not later than one year	596	505
later than one year and not later than five years	1,335	1,111
later than five years	597	540
	2,528	2,156

31. Financial instruments

Carrying amounts and fair values of financial instruments

Table 7 E.66 shows the carrying amounts and fair values of the respective classes of the Group's financial instruments. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Given the varying influencing factors, the reported fair values can only be viewed as indicators of the prices that may actually be achieved on the market.

The fair values of financial instruments were calculated on the basis of market information available on the balance sheet date. The following methods and premises were used:

Receivables from financial services

The fair values of receivables from financial services with variable interest rates are estimated to be equal to the respective carrying amounts because the interest rates agreed and those available in the market do not significantly differ. The fair values of receivables from financial services with fixed interest rates are determined on the basis of discounted expected future cash flows.

E.66

Carrying amounts and fair values of financial instruments

	At December 31, 2016		At December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
In millions of euros				
Financial assets				
Receivables from financial services	80,507	80,851	73,514	73,837
Trade receivables	10,614	10,614	9,054	9,054
Cash and cash equivalents	10,981	10,981	9,936	9,936
Marketable debt securities				
Available-for-sale financial assets	10,748	10,748	8,273	8,273
Other financial assets				
Available-for-sale financial assets	811	811	3,049	3,049
thereof equity instruments measured at fair value	166	166	2,303	2,303
thereof equity instruments measured at cost	645	645	746	746
Financial assets recognized at fair value through profit or loss	106	106	203	203
Derivative financial instruments used in hedge accounting	1,730	1,730	1,363	1,363
Other receivables and financial assets	3,089	3,089	2,839	2,839
	118,586	118,930	108,231	108,554
Financial liabilities				
Financing liabilities				
Trade payables	11,567	11,567	10,548	10,548
Other financial liabilities				
Financial liabilities recognized at fair value through profit or loss	186	186	263	263
Derivative financial instruments used in hedge accounting	2,463	2,463	3,120	3,120
Miscellaneous other financial liabilities	10,220	10,220	8,977	8,977
	142,122	143,365	124,050	124,667

The discounting is based on the current interest rates at which similar loans with identical terms could have been obtained as of December 31, 2016 and December 31, 2015.

Trade receivables and cash and cash equivalents

Due to the short terms of these financial instruments and the fundamentally lower credit risk, it is assumed that their fair values are equal to the carrying amounts.

Marketable debt securities and other financial assets

Financial assets available-for-sale include:

- debt and equity instruments measured at fair value; these instruments were measured using quoted market prices at December 31. If quoted market prices were not available for these debt and equity instruments the fair value measurement is based on inputs that are either directly or indirectly observable on active markets. Until June 30, 2016 equity instruments measured at fair value predominantly comprised the shares in Renault and Nissan (see Note 3).
- equity interests measured at cost; fair values could not be determined for these financial instruments because no stock exchange or market prices are available. These equity interests comprise investments in non-listed companies for which no objective evidence existed at the balance sheet date that these assets were impaired and whose fair values cannot be determined with sufficient reliability. It is assumed that the fair values approximate the carrying amounts of these financial instruments. Daimler does not intend to sell the equity interests which are presented at December 31, 2016.

Financial assets recognized at fair value through profit or loss include derivative financial instruments not used in hedge accounting. These financial instruments as well as *derivative financial instruments used in hedge accounting* comprise:

- derivative currency hedging contracts; the fair values of cross currency interest rate swaps are determined on the basis of the discounted estimated future cash flows using market interest rates appropriate to the remaining terms of the financial instruments. The valuation of currency forwards is based on market quotes of forward curves; currency options were measured using price quotations or option pricing models using market data.

- derivative interest rate hedging contracts; the fair values of interest rate hedging instruments (e.g. interest rate swaps) are calculated on the basis of the discounted estimated future cash flows using the market interest rates appropriate to the remaining terms of the financial instruments.
- derivative commodity hedging contracts; the fair values of commodity hedging contracts (e.g. commodity forwards) are determined on the basis of current reference prices with consideration of forward premiums and discounts.

Other receivables and assets are carried at amortized cost.

Because of the predominantly short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amounts.

Financing liabilities

The fair values of bonds, loans, commercial paper, deposits in the direct banking business and liabilities from ABS transactions are calculated as present values of the estimated future cash flows. Market interest rates for the appropriate terms are used for discounting.

Trade payables

Due to the short maturities of these financial instruments, it is assumed that their fair values are equal to the carrying amounts.

Other financial liabilities

Financial liabilities recognized at fair value through profit or loss comprise derivative financial instruments not used in hedge accounting. For information regarding these financial instruments as well as *derivative financial instruments used in hedge accounting*, see the notes above under marketable debt securities and other financial assets.

Miscellaneous other financial liabilities are carried at amortized cost. Because of the predominantly short maturities of these financial instruments, it is assumed that the fair values approximate the carrying amounts.

Offsetting of financial instruments

The Group concludes derivative transactions in accordance with the master netting arrangements (framework agreement) of the International Swaps and Derivatives Association (ISDA) and other appropriate national framework agreements. However, these arrangements do not meet the criteria for netting in the consolidated statement of financial position, as they allow netting only in the case of future events such as default or insolvency on the part of the Group or the counterparty.

Table 7 E.67 shows the carrying amounts of the derivative financial instruments subject to the described arrangements as well as the possible financial effects of netting in accordance with the master netting arrangements.

Measurement hierarchy

Table 7 E.68 provides an overview of the classification into measurement hierarchies of financial assets and liabilities measured at fair value (according to IFRS 13).

At the end of each reporting period, Daimler reviews the necessity of reclassification between the measurement hierarchies.

For the determination of the credit risk from derivative financial instruments which are allocated to Level 2 measurement hierarchy, portfolios managed on basis of net exposure are applied.

Table 7 E.69 shows into which measurement hierarchy (according to IFRS 13) the fair values of the financial assets and liabilities are classified which are not measured at fair value in the consolidated statement of financial position.

E.67

Disclosure for recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement

	At December 31, 2016			At December 31, 2015		
	Gross and net amounts of financial instruments in the balance sheet	Amounts subject to a master netting arrangement	Net amounts	Gross and net amounts of financial instruments in the balance sheet	Amounts subject to a master netting arrangement	Net amounts
In millions of euros						
Other financial assets ¹	1,836	-1,393	443	1,566	-740	826
Other financial liabilities ²	2,649	-1,393	1,256	3,383	-740	2,643

- 1 The other financial assets which are subject to a master netting arrangement comprise derivative financial instruments that are included in hedge accounting and financial assets measured at fair value through profit or loss (see Note 16).
- 2 The other financial liabilities which are subject to a master netting arrangement comprise derivative financial instruments that are included in hedge accounting and financial liabilities measured at fair value through profit or loss (see Note 25).

E.68**Measurement hierarchy of financial assets and liabilities measured at fair value**

	At December 31, 2016				At December 31, 2015			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
In millions of euros								
Financial assets measured at fair value								
Financial assets available-for-sale	10,914	5,164	5,750	-	10,576	6,976	3,600	-
thereof equity instruments measured at fair value	166	93	73	-	2,303	2,297	6	-
thereof marketable debt securities	10,748	5,071	5,677	-	8,273	4,679	3,594	-
Financial assets measured at fair value through profit or loss	106	-	106	-	203	-	203	-
Derivative financial instruments used in hedge accounting	1,730	-	1,730	-	1,363	-	1,363	-
	12,750	5,164	7,586	-	12,142	6,976	5,166	-
Liabilities measured at fair value								
Financial liabilities measured at fair value through profit or loss	186	-	186	-	263	-	263	-
Derivative financial instruments used in hedge accounting	2,463	-	2,463	-	3,120	-	3,120	-
	2,649	-	2,649	-	3,383	-	3,383	-

1 Fair value measurement is based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.

2 Fair value measurement is based on inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

3 Fair value measurement is based on inputs for which no observable market data is available.

E.69**Measurement hierarchy of financial assets and liabilities not measured at fair value**

	At December 31, 2016				At December 31, 2015			
	Total	Level 1 ¹	Level 2 ²	Level 3 ³	Total	Level 1 ¹	Level 2 ²	Level 3 ³
In millions of euros								
Fair values of financial assets measured at cost								
Receivables from financial services	80,851	-	80,851	-	73,837	-	73,837	-
Fair values of financial liabilities measured at cost								
Financing liabilities	118,929	56,171	62,758	-	101,759	45,535	56,224	-
thereof bonds	63,944	54,800	9,144	-	52,031	45,535	6,496	-
thereof liabilities from ABS transactions	10,948	1,371	9,577	-	7,390	-	7,390	-
thereof other financing liabilities	44,037	-	44,037	-	42,338	-	42,338	-

1 Fair value measurement is based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.

2 Fair value measurement is based on inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

3 Fair value measurement is based on inputs for which no observable market data is available.

E.70**Carrying amounts of financial instruments presented according to IAS 39 measurement categories**

	At December 31,	
	2016	2015
In millions of euros		
Assets		
Receivables from financial services ¹	59,695	55,356
Trade receivables	10,614	9,054
Other receivables and financial assets	3,089	2,839
Loans and receivables	73,398	67,249
Marketable debt securities	10,748	8,273
Other financial assets	811	3,049
Available-for-sale financial assets	11,559	11,322
Financial assets measured at fair value through profit or loss ²	106	203
Liabilities		
Trade payables	11,567	10,548
Financing liabilities ³	117,453	100,879
Other financial liabilities ⁴	10,051	8,860
Financial liabilities measured at (amortized) cost	139,071	120,287
Financial liabilities measured at fair value through profit or loss ²	186	263

The table above does not include cash and cash equivalents or the carrying amounts of derivative financial instruments used in hedge accounting as these financial instruments are not assigned to an IAS 39 measurement category.

- 1 This does not include lease receivables of €20,812 million as of December 31, 2016 (2015: €18,158 million) as these are not assigned to an IAS 39 measurement category.
- 2 Financial instruments classified as held for trading purposes. These figures comprise financial instruments that are not used in hedge accounting.
- 3 This does not include liabilities from finance leases of €233 million as of December 31, 2016 (2015: €263 million) as these are not assigned to an IAS 39 measurement category.
- 4 This does not include liabilities from financial guarantees of €169 million as of December 31, 2016 (2015: €117 million) as these are not assigned to an IAS 39 measurement category.

Measurement categories

The carrying amounts of financial instruments presented according to IAS 39 measurement categories are shown in table [7 E.70](#).

Net gains or losses

Table [7 E.71](#) shows the net gains or losses of financial instruments included in the consolidated statement of income (excluding derivative financial instruments used in hedge accounting).

Net gains/losses of financial assets and liabilities recognized at fair value through profit or loss primarily include gains and losses attributable to changes in fair values.

Net gains on available-for-sale financial assets mainly include income from the measurement of equity interests as well as gains realized on their disposal. In 2016, these gains primarily comprise income of €605 million from the transfer of the investments in Renault and Nissan into the Daimler Pension Trust e.V. (see Note 3).

Net losses on loans and receivables mainly include impairment losses that are charged to cost of sales, selling expenses and other financial income/expense, net. Foreign currency gains and losses are also included.

Net gains/losses on financial liabilities measured at (amortized) cost mainly include gains and losses from currency translation.

Total interest income and total interest expense

Total interest income and total interest expense for financial assets or financial liabilities that are not measured at fair value through profit or loss are shown in table [7 E.72](#).

See Note 1 for qualitative descriptions of accounting for financial instruments (including derivative financial instruments).

Information on derivative financial instruments

Use of derivatives

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly interest rate risks, currency risks and commodity price risks. For these hedging purposes, the Group mainly uses currency forward transactions, cross currency interest rate swaps, interest rate swaps, options and commodity forwards.

Fair values of hedging instruments

Table [7 E.73](#) shows the fair values of hedging instruments at the end of the reporting period.

Fair value hedges

The Group uses fair value hedges primarily for hedging interest rate risks.

Net gains and losses from these hedging instruments and the changes in the value of the underlying transactions are shown in table [7 E.74](#).

E.71

Net gains/losses

	2016	2015
In millions of euros		
Financial assets and liabilities recognized at fair value through profit or loss ¹	-229	197
Available-for-sale financial assets	735	125
Loans and receivables	-346	-313
Financial liabilities measured at (amortized) cost	-165	105

1 Financial instruments classified as held for trading; these amounts relate to financial instruments that are not used in hedge accounting.

E.72

Total interest income and total interest expense

	2016	2015
In millions of euros		
Total interest income	4,166	3,791
Total interest expense	-1,932	-1,799

E.73

Fair values of hedging instruments

	At December 31,	
	2016	2015
In millions of euros		
Fair value hedges	72	498
Cash flow hedges	-805	-2,255
Hedges of net investments in foreign operations	-157	-

E.74

Net gains/losses from fair value hedges

	2016	2015
In millions of euros		
Net gains/losses from hedging instruments	-195	-69
Net gains/losses from underlying transactions	187	65

E.75**Unrealized gains/losses from cash flow hedges**

	2016	2015
In millions of euros		
Unrealized gains/losses	125	-3,770

E.76**Reclassifications of pre-tax gains/losses from equity to the statement of income**

	2016	2015
In millions of euros		
Revenue	-1,423	-2,755
Cost of sales	-86	-99
Interest income	-	-
Interest expense	-2	-3
	-1,511	-2,857

Cash flow hedges

The Group uses cash flow hedges for hedging currency risks, interest rate risks and commodity price risks.

Unrealized pre-tax gains and losses on the measurement of derivatives, which are recognized in other comprehensive income, are shown in table [E.75](#).

Table [E.76](#) provides an overview of the reclassifications of pre-tax gains/losses from equity to the statement of income for the period.

Net profit for 2016 includes net losses (before income taxes) of €8 million (2015: €9 million) attributable to the ineffectiveness of derivative financial instruments entered into for hedging purposes (hedge-ineffectiveness).

The maturities of the interest rate hedges and cross currency interest rate hedges as well as of the commodity hedges correspond with those of the underlying transactions. The realization of the underlying transactions of the cash flow hedges is expected to correspond with the maturities of the hedging transactions shown in table [E.77](#). As of December 31, 2016, Daimler utilized derivative instruments with a maximum maturity of 44 months (2015: 51 months) as hedges for currency risks arising from future transactions.

Hedges of net investments in foreign operations

Daimler also partially hedges the foreign currency risk of selected investments with the application of derivative or non-derivative financial instruments.

Nominal values of derivative financial instruments

Table [E.77](#) shows the nominal values of derivative financial instruments entered into for the purpose of hedging currency risks, interest rate risks and commodity price risks that arise from the Group's operating and/or financing activities.

Hedging transactions for which the effects from the measurement of the hedging instrument and the underlying transaction to a large extent offset each other in the consolidated statement of income mostly not classify for hedge accounting.

Even if derivative financial instruments do not or no longer qualify for hedge accounting, these instruments are still hedging financial risks from the operating business. A hedging instrument is terminated when the hedged item no longer exists or is no longer expected to occur.

Explanations of the hedging of exchange rate risks, interest rate risks and commodity price risks can be found in Note 32 in the sub-item finance market risk.

E.77**Nominal values of derivative financial instruments**

	Nominal values	At December 31, 2016		At December 31, 2015
		Maturity ≤ 1 year	Maturity > 1 year	Nominal values
In millions of euros				
Hedging of currency risks from receivables/liabilities				
Forward exchange contracts	5,921	5,921	-	7,073
Cross currency interest rate swaps	6,020	1,999	4,021	6,191
thereof cash flow hedges	3,453	1,355	2,098	2,560
thereof fair value hedges	1,622	402	1,220	505
Hedging of currency risks from forecasted transactions				
Forward exchange contracts and currency options	56,591	32,346	24,245	51,490
thereof cash flow hedges	55,925	31,745	24,180	49,914
Hedging of currency risks of net investments in foreign operations				
Currency swaps	-	-	-	-
thereof hedging of net investments in foreign operations	-	-	-	-
Hedging of interest rate risks from receivables/liabilities				
Interest rate swaps	49,483	5,626	43,857	39,322
thereof cash flow hedges	2,183	526	1,657	3,104
thereof fair value hedges	41,856	4,663	37,193	29,771
Hedging of commodity price risks from forecasted transactions				
Forward commodity contracts	1,128	593	535	1,388
thereof cash flow hedges	959	458	501	1,231
Total nominal values of derivative financial instruments	119,143	46,485	72,658	105,464
thereof cash flow hedges	62,520	34,084	28,436	56,809
thereof fair value hedges	43,478	5,065	38,413	30,276

32. Management of financial risks

General information on financial risks

As a result of its businesses and the global nature of its operations, Daimler is exposed in particular to market risks from changes in foreign currency exchange rates and interest rates, while commodity price risks arise from procurement. An equity price risk results from investments in listed companies (especially BAIC Motor). In addition, the Group is exposed to credit risks from its leasing and financing activities and from its operating business (trade receivables). With regard to the leasing and financing activities, credit risks arise from operating lease contracts, finance lease contracts and financing contracts. Furthermore, the Group is exposed to liquidity and country risks relating to its credit and market risks or a deterioration of its operating business or financial market disturbances. If these financial risks materialize, they could adversely affect Daimler's profitability, liquidity and capital resources and financial position.

Daimler has established internal guidelines for risk controlling procedures and for the use of financial instruments, including a clear segregation of duties with regard to financial activities, settlement, accounting and the related controlling. The guidelines upon which the Group's risk management processes for financial risks are based are designed to identify and analyze these risks throughout the Group, to set appropriate risk limits and controls and to monitor the risks by means of reliable and up-to-date administrative and information systems. The guidelines and systems are regularly reviewed and adjusted to changes in markets and products.

The Group manages and monitors these risks primarily through its operating and financing activities and, if required, through the use of derivative financial instruments. Daimler uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. Without these derivative financial instruments, the Group would be exposed to higher financial risks (additional information on financial instruments and especially on the nominal values of the derivative financial instruments used is included in Note 31). Daimler regularly evaluates its financial risks with due consideration of changes in key economic indicators and up-to-date market information.

Any market sensitive instruments including equity and debt securities that the plan assets hold to finance pension and other post-employment healthcare benefits are not included in the following quantitative and qualitative analysis. See Note 22 for additional information on Daimler's pension and other post-employment benefits.

Credit risk

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 maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts (without consideration of collateral, if available). Table [7 E.78](#) shows the maximum risk positions.

Liquid assets

Liquid assets consist of cash and cash equivalents and marketable debt securities classified as available-for-sale. With the investment of liquid assets, banks and issuers of securities are selected very carefully and diversified in accordance with a limit system. In the past years, the limit methodology was continuously enhanced to counteract the decline of the creditworthiness of the banking sector in the course of the financial crisis. Additionally, liquid assets are increasingly also held at financial institutions outside Europe with high creditworthiness and as bonds issued by German federal states. Furthermore and due to the current business development, the Group also temporarily holds high levels of liquidity in emerging markets. At the same time, the Group has increased the number of financial institutions with which investments are made. In connection with investment decisions, priority is placed on the borrower's very high creditworthiness and on balanced risk diversification. The limits and their utilizations are reassessed continuously. In this assessment, Daimler also considers the credit risk assessment of its counterparties by the capital markets. In line with the Group's risk policy, most liquid assets are held in investments with an external rating of "A" or better.

Receivables from financial services

Daimler's financing and leasing activities are primarily focused on supporting the sales of the Group's automotive products. As a consequence of these activities, the Group is exposed to credit risk, which is monitored and managed based on defined standards, guidelines and procedures. Daimler manages its credit risk irrespective of whether it is related to a financing contract or to an operating lease or a finance lease contract. For this reason, statements concerning the credit risk of Daimler Financial Services refer to the entire financing and leasing business, unless specified otherwise.

Exposure to credit risk from financing and lease activities is monitored based on the portfolio subject to credit risk. The portfolio subject to credit risk is an internal control quantity that consists of wholesale and retail receivables from financial services and the portion of the operating lease portfolio that is subject to credit risk. Receivables from financial services comprise claims arising from finance lease contracts and repayment claims from financing loans. The operating lease portfolio is reported under equipment on operating leases in the Group's consolidated financial statements. Overdue lease payments from operating lease contracts are recognized in trade receivables.

In addition, the Daimler Financial Services segment is exposed to credit risk from irrevocable loan commitments to retailers and end customers. At December 31, 2016, irrevocable loan commitments of Daimler Financial Services amounted to €1,493 million (2015: €1,913 million), of which €749 million had a maturity of less than one year (2015: €1,186 million), €431 million had maturities between one and three years (2015: €378 million), €96 million had maturities between three and four years (2015: €228 million), €217 million had maturities between four and five years (2015: €92 million) and €0 million had maturities later than five years (2015: €29 million).

The Daimler Financial Services segment has guidelines setting the framework for effective risk management at a global as well as at a local level. In particular, these rules deal with minimum requirements for all risk-relevant credit processes, the definition of financing products offered, the evaluation of customer quality, requests for collateral as well as the treatment of unsecured loans and non-performing claims. The limitation of concentration risks is implemented primarily by means of global limits, which refer to single customer exposures. As of December 31, 2016, exposure to the biggest 15 customers did not exceed 5.4% (2015: 4.8%) of the total portfolio.

With respect to its financing and lease activities, the Group holds collateral for customer transactions. The value of collateral generally depends on the amount of the financed assets. The financed vehicles usually serve as collateral. Furthermore, Daimler Financial Services mitigates the credit risk from financing and lease activities, for example through advance payments from customers.

Scoring systems are applied for the assessment of the default risk of retail and small business customers. Corporate customers are evaluated using internal rating instruments. Both evaluation processes use external credit bureau data if available. The scoring and rating results as well as the availability of security and other risk mitigation instruments, such as advance payments, guarantees and, to a lower extent, residual debt insurances, are essential elements for credit decisions.

Significant loans and leases to corporate customers are tested individually for impairment. An individual loan or lease is considered impaired when there is objective evidence that the Group will be unable to collect all amounts due as specified by the contractual terms. Examples of objective evidence that loans or lease receivables may be impaired include the following factors: significant financial difficulty of the borrower, a rising probability that the borrower will become bankrupt, delinquency in his installment payments, and restructured or renegotiated contracts to avoid immediate default.

Loans and finance lease receivables related to retail or small business customers are grouped into homogeneous pools and collectively assessed for impairment. Impairments are required for example if there are adverse changes in the payment status of the borrowers included in the pool, adverse changes in expected loss frequency and severity, and adverse changes in economic conditions.

Within the framework of testing for impairment, existing collateral is generally given due consideration. In that context, any excess collateral of individual customers is not netted off with insufficient collateral of other customers. The maximum credit risk is limited by the fair value of collateral (e.g. financed vehicles).

E.78

Maximum risk positions of financial assets and loan commitments

	see also Note	Maximum risk position 2016	Maximum risk position 2015
In millions of euros			
Liquid assets		21,729	18,209
Receivables from financial services	14	80,507	73,514
Trade receivables	19	10,614	9,054
Derivative financial instruments used in hedge accounting (assets only)	16	1,730	1,363
Derivative financial instruments not used in hedge accounting (assets only)	16	106	203
Loan commitments	30	1,502	1,931
Other receivables and financial assets	16	3,089	2,839

If, in connection with contracts, a worsening of payment behavior or other causes of a need for impairment are recognized, collection procedures are initiated by claims management to obtain the overdue payments of the customer, to take possession of the asset financed or leased or, alternatively, to renegotiate the impaired contract. Restructuring policies and practices are based on the indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue and that the total proceeds expected to be derived from the renegotiated contract exceed the expected proceeds to be derived from repossession and remarketing.

The allowance ratio decreased compared to the already low level of the previous year.

Further details on receivables from financial services and the balance of the recorded impairments are provided in Note 14.

Trade receivables

Trade receivables are mostly receivables from worldwide sales activities of vehicles and spare parts. The credit risk from trade receivables encompasses the default risk of customers, e.g. dealers and general distribution companies, as well as other corporate and private customers. Daimler manages its credit risk from trade receivables using appropriate IT applications and databases on the basis of internal guidelines which have to be followed globally.

A significant part of the trade receivables from each country's domestic business is secured by various country-specific types of collateral. This collateral includes conditional sales, guarantees and sureties as well as mortgages and cash deposits. In order to prevent the credit risk Daimler assesses the creditworthiness of the counterparties.

For trade receivables from export business, Daimler also evaluates each general distribution company's creditworthiness by means of an internal rating process and its country risk. In this context, the year-end financial statements and other relevant information on the general distribution companies such as payment history are used and assessed.

Depending on the creditworthiness of the general distribution companies, Daimler usually establishes credit limits and limits credit risks with the following types of collateral:

- credit insurances,
- first-class bank guarantees and
- letters of credit.

These procedures are defined in the export credit guidelines, which have Group-wide validity.

Appropriate provisions are recognized for the risks inherent in trade receivables. For this purpose, all receivables are regularly reviewed and impairments are recognized if there is any objective indication of non-performance or other contractual violations. In general, substantial individual receivables and receivables whose realizability is jeopardized are assessed individually. In addition, taking country-specific risks and any collateral into consideration, the other receivables are grouped by similarity of contract and tested for impairment collectively. One important factor for the definition of the impairment to be recognized is the respective country risk.

Further information on trade receivables and the status of impairments recognized is provided in Note 19.

Derivative financial instruments

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. Daimler manages its credit risk exposure in connection with derivative financial instruments through a limit system, which is based on the review of each counterparty's financial strength. This system limits and diversifies the credit risk. As a result, Daimler is exposed to credit risk only to a small extent with respect to its derivative financial instruments. In accordance with the Group's risk policy, most derivatives are contracted with counterparties which have an external rating of "A" or better.

Other receivables and financial assets

With respect to other receivables and financial assets in 2016 and 2015, Daimler is exposed to credit risk only to a small extent.

Liquidity risk

Liquidity risk comprises the risk that a company cannot meet its financial obligations in full.

Daimler manages its liquidity by holding adequate volumes of liquid assets and by maintaining syndicated credit facilities in addition to the cash inflows generated by its operating business. Additionally, the possibility to securitize receivables of financial services business (ABS transactions) also reduces the Group's liquidity risk. Liquid assets comprise cash and cash equivalents as well as debt instruments classified as held for sale. The Group can dispose of these liquid assets at short notice.

In general, Daimler makes use of a broad spectrum of financial instruments to cover its funding requirements. Depending on funding requirements and market conditions, Daimler issues commercial paper, bonds and financial instruments secured by receivables in various currencies. Bank credit lines are also used to cover financing requirements. These credit lines include a syndicated €9.0 billion credit facility of Daimler AG with five year tenor and two extension options of one year each which was signed with a syndicate of international banks in September 2013. In 2014, Daimler had exercised the option to extend the credit line by a further year until 2019. In 2015, Daimler exercised the second extension option to extend the credit line by a further year until 2020. This syndicated facility can be used to finance general corporate purposes and serves as a back-up for commercial paper drawings. At December 31, 2016, this facility had not been utilized. Potential downgrades of Daimler's credit ratings could have a negative impact on the Group's financing.

In addition, customer deposits at Mercedes-Benz Bank are used as a further source of refinancing.

The funds raised are used to finance working capital and capital expenditure as well as the cash needs of the lease and financing business and unexpected liquidity needs. In accordance with internal guidelines, the refunding of the lease and financing business is generally carried out with matching maturities so that financing liabilities have the same maturity profile as the leased assets and the receivables from financial services.

At December 31, 2016, liquidity amounted to €21.7 billion (2015: €18.2 billion). In 2016, significant cash inflows resulted from the largely positive business development of the automotive business segments. Cash outflows resulted in particular from the portfolio growth of the leasing and sales finance activities at Daimler Financial Services as well as from the intensified investment offensive. In addition, cash outflows resulted from the acquisition of 100% of the shares in Athlon (see Note 3), which was carried out in December 2016, as well as from the payment of the fine imposed by the European Commission in connection with the settlement in the trucks antitrust proceedings against Daimler AG.

From an operating point of view, the management of the Group's liquidity exposures is centralized by a daily cash pooling process. This process enables Daimler to manage its liquidity surplus and liquidity requirements according to the actual needs of the Group and each subsidiary. The Group's short-term and mid-term liquidity management takes into account the maturities of financial assets and financial liabilities and estimates of cash flows from the operating business.

Table [7 E.79](#) provides an overview of how the future liquidity situation of the Group is affected by the cash flows from liabilities and financial guarantees as of December 31, 2016.

Information on the Group's financing liabilities is also provided in Note 24.

E.79

Liquidity runoff for liabilities and financial guarantees¹

	Total	2017	2018	2019	2020	2021	≥ 2022
In millions of euros							
Financing liabilities ²	124,406	49,412	26,357	17,858	10,761	7,450	12,568
Derivative financial instruments ³	1,940	1,266	358	320	-10	-20	26
Trade payables ⁴	11,567	11,557	7	2	1	-	-
Miscellaneous other financial liabilities excluding accrued interest	9,337	7,240	822	568	272	115	320
Irrevocable loan commitments of the Daimler Financial Services segment and of Daimler AG ⁵	1,502	758	-	431	96	217	-
Financial guarantees ⁶	784	784	-	-	-	-	-
	149,536	71,017	27,544	19,179	11,120	7,762	12,914

1 The amounts were calculated as follows:

- (a) If the counterparty can request payment at different dates, the liability is included on the basis of the earliest date on which Daimler can be required to pay. The customer deposits of Mercedes-Benz Bank are mostly considered in this analysis to mature within the first year.
- (b) The cash flows of floating interest financial instruments are estimated on the basis of forward rates.
- 2 The stated cash flows of financing liabilities consist of their undiscounted principal and interest payments.
- 3 The undiscounted sum of the net cash outflows of the derivative financial instruments is shown for the respective year. For individual periods, this may also include negative cash flows from derivatives with an overall positive fair value.
- 4 The cash outflows of trade payables are undiscounted.
- 5 The maximum available amounts are stated.
- 6 The maximum potential obligations under the issued guarantees are stated. It is assumed that the amounts are due within the first year.

Country risk

Country risk is the risk of economic loss arising from changes of political, economic, legal or social conditions in the respective country, e.g. resulting from sovereign measures such as expropriation or interdiction of foreign currency transfers.

Daimler is exposed to country risk mainly resulting from cross-border funding or collateralization of Group companies and customers (for example, Turkey), from investments in subsidiaries and joint ventures as well as from cross-border trade receivables (for example, China). Country risks also arise from cross-border cash deposits at financial institutions.

Daimler manages these risks via country exposure limits (e.g. for export credits or for hard currency portfolios of financial services entities) and via insurance of equity investments in high-risk countries. An internal rating system serves as a basis for Daimler's risk-oriented country exposure management; it assigns all countries to risk classes, with consideration of external ratings and capital market indications of country risks.

Finance market risks

The global nature of its businesses exposes Daimler to significant market risks resulting from fluctuations in foreign currency exchange rates and interest rates. In addition, the Group is exposed to market risks in terms of commodity price risk associated with its business operations, which the Group hedges partially through derivative financial instruments. The Group is also exposed to equity price risk in connection with its investments in listed companies (including BAIC Motor). If these market risks materialize, they will adversely affect the Group's profitability, liquidity and capital resources and financial position.

Daimler manages market risks to minimize the impact of fluctuations in foreign exchange rates, interest rates and commodity prices on the results of the Group and its segments. The Group calculates its overall exposure to these market risks to provide the basis for hedging decisions, which include the selection of hedging instruments and the determination of hedging volumes and the corresponding periods. Decisions regarding the management of market risks resulting from fluctuations in foreign exchange rates, interest rates (asset-/liability management) and commodity prices are regularly made by the relevant Daimler risk management committees.

As part of its risk management system, Daimler employs value at risk. In performing these analyses, Daimler quantifies its market risk exposure to changes in foreign currency exchange rates and interest rates on a regular basis by predicting the potential loss over a target time horizon (holding period) and confidence level.

The value at risk calculations employed:

- express potential losses in fair values, and
- assume a 99% confidence level and a holding period of five days.

Daimler calculates the value at risk for exchange rate and interest rate risk according to the variance-covariance approach. The value at risk calculation method for commodity hedging instruments is based on a Monte Carlo simulation.

When calculating the value at risk by using the variance-covariance approach, Daimler first computes the current market value of the Group's financial instruments portfolio. Then the sensitivity of the portfolio value to changes in the relevant market risk factors, such as particular foreign currency exchange rates or interest rates of specific maturities, is quantified. Based on expected volatilities and correlations of these market risk factors, which are obtained from the Risk-Metrics™ dataset, a statistical distribution of potential changes in the portfolio value at the end of the holding period is computed. The loss which is reached or exceeded with a probability of only 1% can be derived from this calculation and represents the value at risk.

The Monte Carlo simulation uses random numbers to generate possible changes in market risk factors consistent with current market volatilities. The changes in market risk factors allow the calculation of a possible change in the portfolio value over the holding period. Running multiple iterations of this simulation leads to a distribution of portfolio value changes. The value at risk can be determined based on this distribution as the portfolio value loss which is reached or exceeded with a probability of 1%.

Oriented towards the risk management standards of the international banking industry, Daimler maintains its financial controlling unit independent of operating Corporate Treasury and with a separate reporting line.

Exchange rate risk

Transaction risk and currency risk management. The global nature of Daimler's businesses exposes cash flows and earnings to risks arising from fluctuations in exchange rates. These risks primarily relate to fluctuations between the euro and the US dollar, the Chinese renminbi, the British pound and other currencies such as currencies of growth markets. In the operating vehicle business, the Group's exchange rate risk primarily arises when revenue is generated in a currency that is different from the currency in which the costs of generating the revenue are incurred (transaction risk). When the revenue is converted into the currency in which the costs are incurred, it may be inadequate to cover the costs if the value of the currency in which the revenue is generated declined in the interim relative to the value of the currency in which the costs were incurred. This risk exposure primarily affects the Mercedes-Benz Cars segment, which generates a major portion of its revenue in foreign currencies and incurs manufacturing costs primarily in euros. The Daimler Trucks segment is also subject to

transaction risk, but to a lesser extent because of its global production network. The Mercedes-Benz Vans and Daimler Buses segments are also directly exposed to transaction risk, but also only to a minor degree compared to the Mercedes-Benz Cars segment. In addition, the Group is indirectly exposed to transaction risk from its equity-method investments.

Cash inflows and outflows of the business segments are offset if they are denominated in the same currency. This means that the exchange rate risk resulting from revenue generated in a particular currency can be offset by costs in the same currency, even if the revenue arises from a transaction independent of that in which the costs are incurred. As a result, only the net exposure is subject to transaction risk. In addition, regularly updated natural hedging opportunities exist to the extent that currency exposures of the operating businesses of individual segments offset each other partially at Group level, thereby reducing overall currency exposure. These natural hedges eliminate the need for hedging to the extent of the matched exposures. To provide an additional natural hedge against any remaining transaction risk exposure, Daimler generally strives to increase cash outflows in the same currencies in which the Group has a net excess inflow.

In order to mitigate the impact of currency exchange rate fluctuations for the operating business (future transactions), Daimler continually assesses its exposure to exchange rate risks and hedges a portion of those risks by using derivative financial instruments. Daimler's Foreign Exchange Committee (FXCo) manages the Group's exchange rate risk and its hedging transactions through currency derivatives. The FXCo consists of representatives of the relevant segments and central functions. The Corporate Treasury department aggregates foreign currency exposures from Daimler's subsidiaries and operative units and carries out the FXCo's decisions concerning foreign currency hedging through transactions with international financial institutions. Any overcollateralization caused by changes in exposure is generally reversed by taking suitable measures without delay.

Risk Controlling regularly informs the Board of Management of the actions taken by Corporate Treasury based on the FXCo's decisions.

The Group's targeted hedge ratios for forecasted operating cash flows in foreign currency are indicated by a reference model. On the one hand, the hedging horizon is naturally limited by uncertainty related to cash flows that lie far in the future; on the other hand, it may also be limited by the fact that appropriate currency contracts are not available. This reference model aims to limit risks for the Group from unfavorable movements in exchange rates while preserving some flexibility to participate in favorable developments. Based on this reference model and depending on the market outlook, the FXCo determines the hedging horizon, which usually varies from one to five years, as well as the average hedge ratios. Reflecting the character of the underlying risks, the hedge ratios decrease with increasing maturities. At year-end 2016, foreign exchange management showed an unhedged position in the automotive business for the underlying forecasted cash flows in US dollars in calendar year 2017 of 19%, for the underlying forecasted cash flows in Chinese renminbi in calendar year 2017 of 23%, as well as for the underlying forecasted cash flows in British pounds in calendar year 2017 of 22%.

The hedged position of the operating vehicle businesses is influenced by the amount of derivative currency contracts held. The derivative financial instruments used to cover foreign currency exposure are primarily forward foreign exchange contracts and currency options. Daimler's guidelines call for a mixture of these instruments depending on the assessment of market conditions. Value at risk is used to measure the exchange rate risk inherent in these derivative financial instruments.

Table 7 E.80 shows the period-end, high, low and average value at risk figures of the exchange rate risk for the 2016 and 2015 portfolios of derivative financial instruments, which were entered into primarily in connection with the operative vehicle businesses. Average exposure has been computed on an end-of-quarter basis. The offsetting transactions underlying the derivative financial instruments are not included in the following value at risk presentation. See also table 7 E.77 for the nominal volumes on the balance sheet date of derivative currency instruments entered into to hedge the currency risk from forecasted transactions.

E.80

Value at risk for exchange rate risk, interest rate risk and commodity price risk

	2016				2015			
	Period-end	High	Low	Average	Period-end	High	Low	Average
In millions of euros								
Exchange rate risk (from derivative financial instruments)	912	1,525	812	1,182	1,209	1,680	1,209	1,543
Interest rate risk	50	90	42	62	54	69	46	56
Commodity price risk (from derivative financial instruments)	43	44	34	39	54	63	37	49

In 2016, the development of the value at risk from foreign currency hedging was mainly driven by changes in foreign currency volatilities.

The Group's investments in liquid assets or refinancing activities generally are not allowed to result in currency risk. Transaction risks arising from liquid assets or payables in foreign currencies that result from the Group's investment or refinancing on money and capital markets are generally hedged against currency risks at the time of investing or refinancing in accordance with Daimler's internal guidelines. The Group uses appropriate derivative financial instruments (e.g. cross currency interest rate swaps) to hedge against currency risk.

Since currency risks arising from the Group's investment or refinancing in foreign currencies and the respective hedging transactions principally offset each other, these financial instruments are not included in the value at risk calculation presented.

Effects of currency translation. For purposes of Daimler's consolidated financial statements, the income and expenses and the assets and liabilities of subsidiaries located outside the euro zone are converted into euros. Therefore, period-to-period changes in average exchange rates may cause translation effects that have a significant impact on, for example, revenue, segment results (EBIT) and assets and liabilities of the Group. Unlike exchange rate transaction risk, exchange rate translation risk does not necessarily affect future cash flows. The Group's equity position reflects changes in book values caused by exchange rates. In general, Daimler does not hedge against exchange rate translation risk.

Interest rate risk

Daimler uses a variety of interest rate sensitive financial instruments to manage the liquidity needs of its day-to-day operations. A substantial volume of interest rate sensitive assets and liabilities results from the leasing and sales financing business operated by the Daimler Financial Services segment. The Daimler Financial Services companies enter into transactions with customers that primarily result in fixed-rate receivables. Daimler's general policy is to match funding in terms of maturities and interest rates wherever economically feasible. However, for a limited portion of the receivables portfolio in selected and developed markets, the Group does not match funding in terms of maturities in order to take advantage of market opportunities. As a result, Daimler is exposed to risks due to changes in interest rates. In this regard, the Group is not exposed to any liquidity risks.

An asset/liability committee consisting of members of the Daimler Financial Services segment and the Corporate Treasury department manages the interest rate risk relating to Daimler's leasing and financing activities by setting targets for the interest rate risk position. The Treasury Risk Management department and the local Daimler Financial Services companies are jointly responsible for achieving these targets. As separate functions, the Daimler Financial Services Risk Management and the Daimler Financial Services Controlling & Reporting department monitors target achievement on a monthly basis. In order to achieve the targeted interest rate risk positions in terms of maturities and interest rate

fixing periods, Daimler also uses derivative financial instruments such as interest rate swaps. Daimler assesses its interest rate risk position by comparing assets and liabilities for corresponding maturities, including the impact of the relevant derivative financial instruments.

Derivative financial instruments are also used in conjunction with the refinancing related to the industrial business. Daimler coordinates the funding activities of the industrial and financial services businesses at the Group level.

Table 7 E.80 shows the period-end, high, low and average value at risk figures of the interest rate risk for the 2016 and 2015 portfolio of interest rate sensitive financial instruments and derivative financial instruments of the Group, including the financial instruments of the leasing and sales financing business. In this respect, the table shows the interest rate risk regarding the unhedged position of interest rate sensitive financial instruments. The average values have been computed on an end-of-quarter basis.

In the course of 2016, changes of the value at risk of interest rate sensitive financial instruments were primarily determined by the development of interest rate volatilities.

Commodity price risk

Daimler is exposed to the risk of changes in commodity prices in connection with procuring raw materials and manufacturing supplies used in production. A small portion of the raw material price risk, primarily relating to forecasted procurement of certain metals, is mitigated with the use of derivative financial instruments.

For precious metals, central commodity management shows an unhedged position of 27% of the forecasted commodity purchases at year-end 2016 for calendar year 2017. The corresponding figure at year-end 2015 was 23% for calendar year 2016.

Table 7 E.80 shows the period-end, high, low and average value at risk figures of the commodity price risk for the 2016 and 2015 portfolio of derivative financial instruments used to hedge raw material price risk. Average exposure has been computed on an end-of-quarter basis. The transactions underlying the derivative financial instruments are not included in the value at risk presentation. See also table 7 E.77 for the nominal values of derivative commodity price hedges at the balance sheet date.

Compared to the previous year, the value at risk of commodity derivatives has decreased. The main reason for this development was the decrease in the nominal hedge volume for base metals.

Equity price risk

Daimler predominantly holds investments in shares of companies which are classified as long-term investments or which are accounted for using the equity method, such as BAIC Motor. Therefore, the Group does not include these investments in a market risk assessment.

33. Segment reporting

Reportable segments

The reportable segments of the Group are Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses and Daimler Financial Services. The segments are largely organized and managed separately according to nature of products and services provided, brands, distribution channels and profile of customers.

The vehicle segments develop and manufacture passenger cars, trucks, vans and buses. The Mercedes-Benz Cars segment comprises premium vehicles of the Mercedes-Benz brand including the brands Mercedes-AMG and Mercedes-Maybach, and small cars under the smart brand, as well as the brand Mercedes me. Electric products will be marketed under the EQ brand in the future. Daimler Trucks distributes its trucks under the brand names Mercedes-Benz, Freightliner, Western Star, FUSO and BharatBenz. Furthermore, buses under the brands Thomas Built Buses and FUSO are included in the Daimler Trucks range of products. The vans of the Mercedes-Benz Vans segment are primarily sold under the brand name Mercedes-Benz and also under the Freightliner brand. Daimler Buses sells completely built-up buses under the brand names Mercedes-Benz and Setra. In addition, Daimler Buses produces and sells bus chassis. The vehicle segments also sell related spare parts and accessories.

The Daimler Financial Services segment supports the sales of the Group's vehicle segments worldwide. Its product portfolio primarily comprises tailored financing and leasing packages for end-customers and dealers, brokering of automotive insurance and banking services. The segment also provides services such as fleet management in Europe, which primarily takes place through the newly acquired Athlon brand. Furthermore, Daimler Financial Services is active in the area of innovative mobility services, in particular under the brands moovel, mytaxi and car2go.

Management and reporting system

The Group's management reporting and controlling systems principally use accounting policies that are the same as those described in Note 1 in the summary of significant accounting policies according to IFRS.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as "EBIT" in our management and reporting system.

EBIT comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs, other operating income/expense, and our share of profit/loss from equity-method investments, net, as well as other financial income/expense, net. Although amortization of capitalized borrowing costs is included in cost of sales, it is not included in EBIT.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Segment assets principally comprise all assets. The industrial business segments' assets exclude income tax assets, assets from defined benefit pension plans and other post-employment benefit plans, and certain financial assets (including liquidity). Segment liabilities principally comprise all liabilities. The industrial business segments' liabilities exclude income tax liabilities, liabilities from defined benefit pension plans and other post-employment benefit plans, and certain financial liabilities (including financing liabilities).

In the context of fine tuning our performance measurement system in 2016, the definition of segment assets and segment liabilities was adjusted retrospectively beginning in 2015, and no longer includes hedging instruments that are recognized in equity until maturity. Accordingly, segment assets and segment liabilities in 2015 have been adjusted with reductions of €0.5 billion and €2.9 billion respectively. The adjustments primarily affected the Mercedes-Benz Cars segment.

Daimler Financial Services' performance is measured on the basis of return on equity, which is the usual procedure in the banking business.

The residual value risks associated with the Group's operating leases and finance lease receivables are generally borne by the vehicle segments that manufactured the leased equipment. Risk sharing is based on agreements between the respective vehicle segments and Daimler Financial Services; the terms vary by vehicle segment and geographic region.

Non-current assets consist of intangible assets, property, plant and equipment and equipment on operating leases.

Capital expenditures for intangible assets and property, plant and equipment reflect the cash-effective additions to these property, plant and equipment and intangible assets as far as they do not relate to capitalized borrowing costs, goodwill or finance leases.

Depreciation and amortization may also include impairments as far as they do not relate to goodwill impairment pursuant to IAS 36.

Amortization of capitalized borrowing costs is not included in the amortization of intangible assets or depreciation of property, plant and equipment since it is not considered as part of EBIT.

Reconciliation

Reconciliation includes corporate items for which headquarters are responsible. Transactions between the segments are eliminated in the context of consolidation and the eliminated amounts are included in the reconciliation.

The effects of certain legal proceedings are excluded from the operating results and liabilities of the segments if such items are not indicative of the segments' performance, since the related results of operations may be distorted by the amount and the irregular nature of such events.

Reconciliation also includes corporate projects, profits and losses on derivative financial transactions allocated to headquarters and equity interests not allocated to the segments.

Information related to geographic areas

With respect to information about geographical regions, revenue is allocated to countries based on the location of the customer; non-current assets are presented according to the physical location of these assets.

Table 7 E.81 presents segment information as of and for the years ended December 31, 2016 and 2015.

Mercedes-Benz Cars

In the year 2016, Mercedes-Benz Cars segment's earnings include expenses of €480 million (2015: €300 million) in connection with Takata airbags and of €238 million in connection with the remeasurement of inventories. Expenses of €64 million resulted from a settlement in connection with a patent dispute. Furthermore, EBIT was reduced by €33 million (2015: €64 million) due to the restructuring of the Group's own dealer network. The optimization programs led to a cash inflow of €253 million (2015: €180 million) (see also Note 5). In the year 2015, expenses of €121 million resulted from public-sector levies related to prior periods and of €19 million from the relocation of MBUSA headquarters. On the other hand, income of €87 million from the sale of real estate in the United States had a positive impact on earnings.

E.81

Segment information

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services	Total Segments	Reconciliation	Daimler Group
In millions of euros								
2016								
External revenue	85,785	31,719	12,298	4,101	19,358	153,261	-	153,261
Intersegment revenue	3,499	1,468	537	75	1,302	6,881	-6,881	-
Total revenue	89,284	33,187	12,835	4,176	20,660	160,142	-6,881	153,261
Segment profit (EBIT)	8,112	1,948	1,170	249	1,739	13,218	-316	12,902
thereof profit/loss from equity-method investments	627	38	12	1	-1	677	-175	502
thereof profit/loss from compounding and effects from changes in discount rates of provisions for other risks	-82	-27	-10	-4	-5	-128	4	-124
Segment assets	65,024	22,110	7,351	3,841	141,842	240,168	2,820	242,988
thereof carrying amounts of equity-method investments	2,812	545	118	11	55	3,541	557	4,098
Segment liabilities	41,133	13,423	5,393	2,954	131,394	194,297	-10,442	183,855
Additions to non-current assets	14,289	2,403	1,526	476	13,461	32,155	-10	32,145
thereof investments in intangible assets	2,272	121	457	18	76	2,944	-	2,944
thereof investments in property, plant and equipment	4,147	1,243	373	97	37	5,897	-8	5,889
Depreciation and amortization of non-current assets	5,061	1,547	445	266	4,772	12,091	52	12,143
thereof amortization of intangible assets	1,161	279	70	16	62	1,588	-	1,588
thereof depreciation of property, plant and equipment	2,799	802	196	75	18	3,890	1	3,891

Daimler Trucks

In 2016, expenses of €105 million (2015: €105 million) resulted from Daimler Trucks' workforce adjustments and the restructuring of the Group's own dealer network. The optimization programs led to a cash outflow of €68 million (2015: €64 million) (see also Note 5). In the year 2015, expenses of €61 million from the sale of Atlantis Foundries had a negative effect on earnings.

Mercedes-Benz Vans

In the year 2016, expenses of €83 million (2015: €40 million) in connection with Takata airbags and expenses of €49 million (2015: €29 million) from workforce adjustments and the restructuring of the Group's own dealer network had negative effects on EBIT (see also Note 5). In the year 2015, expenses of €3 million were recognized from the relocation of MBUSA headquarters.

Daimler Buses

In 2016, expenses of €9 million from workforce adjustments reduced EBIT at Daimler Buses. In the year 2015, expenses of €4 million resulted from the restructuring of the Group's own dealer network (see also Note 5). However, income of €16 million from the sale of the investment in New MCI Holdings Inc. had a positive impact on earnings.

Daimler Financial Services

The interest income and interest expense of Daimler Financial Services are included in revenue and cost of sales, and are presented in Notes 4 and 5.

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services	Total Segments	Reconciliation	Daimler Group
In millions of euros								
2015								
External revenue	80,956	35,613	11,129	4,046	17,723	149,467	-	149,467
Intersegment revenue	2,853	1,965	344	67	1,239	6,468	-6,468	-
Total revenue	83,809	37,578	11,473	4,113	18,962	155,935	-6,468	149,467
Segment profit (EBIT)	7,926	2,576	880	214	1,619	13,215	-29	13,186
thereof profit/loss from equity-method investments	428	-16	-14	2	-10	390	74	464
thereof profit/loss from compounding and effects from changes in discount rates of provisions for other risks	13	-15	-7	-3	-4	-16	-4	-20
Segment assets ¹	58,523	21,267	6,274	3,562	123,863	213,489	3,677	217,166
thereof carrying amounts of equity method investments	2,142	578	109	9	23	2,861	772	3,633
Segment liabilities ¹	36,655	13,459	4,852	2,833	113,991	171,790	-9,248	162,542
Additions to non-current assets	12,556	2,242	1,194	509	12,312	28,813	5	28,818
thereof investments in intangible assets	1,815	67	288	16	75	2,261	-	2,261
thereof investments in property, plant and equipment	3,629	1,110	202	104	30	5,075	-	5,075
Depreciation and amortization of non-current assets	4,850	1,559	481	251	4,182	11,323	17	11,340
thereof amortization of intangible assets	1,122	285	106	14	53	1,580	-	1,580
thereof depreciation of property, plant and equipment	2,677	847	184	79	16	3,803	1	3,804

¹ Previous year retrospectively adjusted due to fine tuning the definition of segment assets and segment liabilities.

E.82**Reconciliation to Group figures**

	2016	2015
In millions of euros		
Total of segments' profit (EBIT)	13,218	13,215
Equity-method investments ¹	-175	74
Other corporate items	-158	-153
Eliminations	17	50
Group EBIT	12,902	13,186
Amortization of capitalized borrowing costs ²	-12	-10
Interest income	230	170
Interest expense	-546	-602
Profit before income taxes	12,574	12,744
Total of segments' assets ³	240,168	213,489
Carrying amount of equity-method investments ⁴	557	772
Income tax assets ⁵	3,744	3,338
Unallocated financial assets (including liquidity) and assets from pensions and similar obligations ^{3,5}	19,550	16,612
Other corporate items and eliminations	-21,031	-17,045
Group assets	242,988	217,166
Total of segments' liabilities ³	194,297	171,790
Income tax liabilities ⁵	809	283
Unallocated financial liabilities and liabilities from pensions and similar obligations ^{3,5}	9,190	8,570
Other corporate items and eliminations	-20,441	-18,101
Group liabilities	183,855	162,542

- 1 In 2016, impairment of €244 million of the investment in BAIC Motor included. In addition, both years primarily comprise the Group's proportionate share of profits and losses of BAIC Motor.
- 2 Amortization of capitalized borrowing costs is not considered in the internal performance measure "EBIT" but is included in cost of sales.
- 3 Previous year retrospectively adjusted due to fine tuning the definition of segment assets and segment liabilities.
- 4 Mainly comprises the carrying amount of the investment in BAIC Motor.
- 5 Industrial business.

Reconciliations

Reconciliations of the total segment amounts to the respective items included in the consolidated financial statements are shown in table [7 E.82](#).

In 2016, the line item *Other corporate items* comprises expenses of €400 million related to legal proceedings as well as losses from currency transactions of €241 million. On the other hand, income of €605 million from the contribution of shares in Renault and Nissan to pension plan assets had a positive effect on earnings.

Revenue and non-current assets by region

Revenue from external customers and non-current assets by region are shown in table [7 E.83](#).

E.83**Revenue and non-current assets by region**

	2016	Revenue 2015	2016	Non-current assets 2015
In millions of euros				
Europe	63,417	58,247	54,054	45,565
thereof Germany	23,509	22,001	39,074	34,981
NAFTA region	44,960	47,653	26,898	24,105
thereof United States	39,169	41,920	24,118	21,878
Asia	35,562	33,744	2,482	2,161
thereof China	15,984	14,684	140	100
Other markets	9,322	9,823	1,987	1,502
	153,261	149,467	85,421	73,333

34. Capital management

“Net assets” and “value added” represent the basis for capital management at Daimler. The assets and liabilities of the segments in accordance with IFRS provide the basis for the determination of net assets at Group level. The industrial segments are accountable for the operational net assets; all assets, liabilities and provisions which they are responsible for in day-to-day operations are therefore allocated to them. In the context of fine tuning our performance measurement system in 2016, the definition of net assets was adjusted retrospectively beginning in 2015 and no longer includes hedging instruments recognized in equity until maturity. Accordingly, the value of net assets in 2015 has been adjusted upward by €2.4 billion. Performance measurement at Daimler Financial Services is on an equity basis, in line with the usual practice in the banking business. Net assets at Group level additionally include assets and liabilities from income taxes as well as other corporate items and eliminations.

The average annual net assets are calculated from the average quarterly net assets. The average quarterly net assets are calculated as an average of the net assets at the beginning and the end of the quarter and are shown in table [E.84](#).

The cost of capital of the Group’s average net assets is reflected in value added. Value added shows the extent to which the Group achieves or exceeds the minimum return requirements of the shareholders and creditors, thus creating additional value. The required rate of return on net assets, and thus the cost of capital, are derived from the minimum rates of return that investors expect on their invested capital. The Group’s cost of capital comprises the cost of equity as well as the costs of debt and pension obligations of the industrial business; in addition, the expected returns on liquidity and on the plan assets of the pension funds of the industrial business are considered with the opposite sign. In the reporting period, the cost of capital used for our internal capital management amounted to 8% after taxes.

The objective of capital management is to increase value added among other things by optimizing the cost of capital. This is achieved on the one hand by the management of the net assets, for instance by optimizing working capital, which is within the operational responsibility of the segments. In addition, taking into account legal regulations, Daimler strives to optimize the costs and risks of its capital structure and, consequently, the cost of capital, with due consideration of applicable law. Examples of this include a balanced relationship between equity and financial liabilities as well as an appropriate level of liquidity, oriented towards the operational requirements.

35. Earnings per share

The calculation of basic and diluted earnings per share is based on net profit attributable to shareholders of Daimler AG. Following the expiration of the stock option plan in 2014, dilutive effects no longer exist. The profit attributable to shareholders of Daimler AG (basic and diluted) amounts to €8,526 million (2015: €8,424 million). The weighted average number of shares outstanding (basic and diluted) amounts to 1,069.8 million (2015: 1,069.8 million).

E.84

Average net assets

	2016	2015
In millions of euros		
Mercedes-Benz Cars ¹	22,345	19,788
Daimler Trucks ¹	8,448	8,176
Mercedes-Benz Vans ¹	1,739	1,686
Daimler Buses ¹	887	906
Daimler Financial Services ²	10,000	8,859
Net assets of the segments	43,419	39,415
Equity-method investments ³	555	770
Assets and liabilities from income taxes ⁴	3,372	3,772
Other corporate items and eliminations ⁴	-292	839
Net assets Daimler Group ¹	47,054	44,796

1 Previous year retrospectively adjusted due to fine tuning the definition of net assets.

2 Equity.

3 Unless allocated to the segments.

4 Industrial business.

36. Related party relationships

Related parties are deemed to be associated companies, joint ventures, joint operations and unconsolidated subsidiaries, as well as persons who exercise a significant influence on the financial and business policy of the Daimler Group. The latter category includes all persons in key positions and their close family members. At the Daimler Group, those persons are the members of the Board of Management and of the Supervisory Board.

Most of the goods and services supplied within the ordinary course of business between the Group and related parties comprise transactions with associated companies, joint ventures and joint operations, and are shown in table [7 E.85](#).

Associated companies

A large proportion of the Group's sales of goods and services with associated companies as well as receivables results from business relations with Beijing Benz Automotive Co., Ltd. (BBAC). See Note 13 for further information on BBAC.

The purchases of goods and services shown in table [7 E.85](#) were primarily from MBtech Group GmbH & Co. KGaA (MBtech Group). MBtech Group develops, integrates and tests components, systems, modules and vehicles worldwide.

In 2015, the associated company BAIC Motor acquired a 35% interest in the fully consolidated Mercedes-Benz Leasing Co., Ltd. (MBLC) in the context of a capital increase. Daimler continues to be the main shareholder with an interest of 65%. Upon completion of a capital increase, performed in 2016, BAIC Motor and Daimler continue to hold 35% and 65% respectively of the equity interest in MBLC. Further information on BAIC Motor is provided in Note 13.

Joint ventures

Significant sales of goods and services took place with Fujian Benz Automotive Co., Ltd. (FBAC), as well as with DAIMLER KAMAZ RUS OOO (DK RUS), a joint venture established with Kamaz PAO, another of the Group's associated companies. The Mercedes-Benz Trucks Vostok OOO (MBTV) and Fuso Kamaz Trucks Rus OOO (FKTR) joint ventures, which had previously operated separately, were merged in 2015 as Mercedes-Benz Trucks Vostok OOO (MBTV). MBTV was renamed as DAIMLER KAMAZ RUS OOO (DK RUS) on January 21, 2016.

On November 7, 2016, the joint venture Shenzhen BYD Daimler New Technology Co. Ltd. was renamed as Shenzhen DENZA New Energy Automotive Co., Ltd. (DENZA).

DENZA is allocated to the Mercedes-Benz Cars segment. In 2014, in line with its 50% interest in DENZA, Daimler provided a joint and separate liability guarantee in an amount of RMB 750 million (approximately €102 million at December 31, 2016) to external banks which provided a syndicated loan. This loan had been fully utilized in 2016. The residual debt amounts to RMB 743 million as of December 31, 2016.

In December 2015, Daimler decided to provide a shareholder loan of RMB 250 million (approximately €34 million) to the joint venture DENZA, which had been fully utilized as of December 31, 2016.

In connection with its 45% equity interest in Toll Collect GmbH, Daimler has issued guarantees which are not shown in table [7 E.85](#) (€100 million at December 31, 2016 and at December 31, 2015).

E.85

Transactions with related parties

	Sales of goods and services and other income		Purchases of goods and services and other expense		Receivables		Payables	
	2016	2015	2016	2015	At December 31, ¹ 2016	2015	At December 31, ² 2016	2015
In millions of euros								
Associated companies	3,586	3,192	428	367	1,233	936	89	96
thereof BBAC	3,262	2,922	59	69	1,178	884	27	51
Joint ventures	507	497	64	91	150	158	110	46
Joint operations	40	31	288	281	38	47	30	35

1 After write-downs totaling €51 million (2015: €43 million).

2 Including liabilities from default risks from guarantees for related parties.

Joint operations

Joint operations primarily relate to significant business transactions with Beijing Mercedes-Benz Sales Service Co., Ltd.

Note 13 provides details of the business operations of the significant associated companies and joint ventures, as well as significant transactions in the years 2016 and 2015.

Contributions to plan assets

In 2016 and 2015, the Group made contributions of €2,427 million and €1,902 million to its external funds to cover pension and other post-employment benefits. See also Note 22 for further information.

Board members

Throughout the world, the Group has business relationships with numerous entities that are customers and/or suppliers of the Group. Those customers and/or suppliers include companies that have a connection with some of the members of the Board of Management or of the Supervisory Board and close family members of these board members of Daimler AG or its subsidiaries.

Board of Management and Supervisory Board members and close family members of these board members may also purchase goods and services from Daimler AG or its subsidiaries as customers. When such business relationships exist, transactions are concluded on the basis of customary market conditions.

See Note 37 for information on the remuneration of board members.

37. Remuneration of the members of the Board of Management and the Supervisory Board

Remuneration granted to the members of the Board of Management and the Supervisory Board who were active as of December 31, 2016, affected net profit for the year ended December 31 as shown in table [7 E.86](#).

Expenses for variable remuneration with long-term incentive effect, as shown in table [7 E.86](#), result from the ongoing measurement at fair value at each balance sheet date of all rights granted and not yet due under the Performance Phantom Share Plans (PPSP). In 2016, the active members of the Board of Management were granted 162,033 (2015: 147,170) phantom shares in connection with the PPSP; the fair value of these phantom shares at the grant date was €10.2 million (2015: €12.3 million). According to Section 314 Subsection 1 Number 6a of the German Commercial Code (HGB) the overall remuneration granted to the members of the Board of Management, excluding service cost resulting from entitlements to post-employment benefits, amounted to €31.8 million (2015: €38.8 million). See Note 21 for additional information on share-based payment of the members of the Board of Management.

The members of the Supervisory Board are solely granted short-term benefits for their board and committee activities, except for remuneration and other benefits paid to those members representing the employees in accordance with their contracts of employment. No remuneration was paid for services provided personally beyond board and committee activities, in particular for advisory or agency services, in 2016 or 2015.

No advance payments or loans were made to members of the Board of Management or to the members of the Supervisory Board of Daimler AG.

The payments made in 2016 to former members of the Board of Management of Daimler AG and their survivors amounted to €15.6 million (2015: €15.5 million). The pension provisions for former members of the Board of Management and their survivors amounted to €252.9 million as of December 31, 2016 (2015: €235.2 million).

Information regarding the remuneration of the members of the Board of Management and of the Supervisory Board is disclosed on an individual basis in the Remuneration Report, which is part of the combined Management Report.

[Management Report from page 142](#)

E.86

Remuneration of the members of the Board of Management and the Supervisory Board

	2016	2015
In millions of euros		
Remuneration of the Board of Management		
Fixed remuneration	10.0	9.1
Short-term variable remuneration	5.8	8.7
Mid-term variable remuneration	5.2	8.8
Variable remuneration with a long-term incentive effect	13.1	21.1
Post-employment benefits (service cost)	2.8	3.5
Termination benefits	–	–
	36.9	51.2
Remuneration of the Supervisory Board		
	3.5	3.5
	40.4	54.7

38. Principal accountant fees

The shareholders of Daimler AG elected KPMG AG Wirtschaftsprüfungsgesellschaft as the external auditor at the Annual Shareholders' Meeting held on April 6, 2016. Table [7 E.87](#) shows the fees paid for services provided by KPMG AG Wirtschaftsprüfungsgesellschaft and the companies of the worldwide KPMG group.

The annual audit fees are for the audit of the consolidated financial statements and the company financial statements of Daimler AG and the subsidiaries included in the Group's consolidated financial statements.

In 2016, fees for other attestation services include in particular the review of the interim financial statements (€5 million), the audit of the internal control system (€3 million), as well as additional audit services that are caused by an audit or are made use of within an audit (€5 million).

E.87

Accountant fees

	2016	2015
In millions of euros		
Audit of financial statements	26	25
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	10	10
Other attestation services	20	16
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	15	12
Tax consulting	2	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	1	1
Other services	5	11
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	4	10
	53	54

39. Subsequent events

On January 31, 2017, Mitsubishi Fuso Truck and Bus Corporation sold land and buildings for a price of €336 million. This resulted in income of approximately €250 million at the Daimler Trucks segment in 2017.

40. Additional information

German Corporate Governance Code

The Board of Management and the Supervisory Board of Daimler AG have issued a declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it permanent available to their shareholders on Daimler's website at <https://www.daimler.com/documents/company/corporate-governance/declarations/daimler-declaration-en-12-2016.pdf>.

Information on investments

The statement of investments of Daimler Group pursuant to Section 313 Subsection 2 No. 1-6 of the German Commercial Code (HGB) is presented in table [7 E.88](#). Information on equity and earnings and information on investments pursuant to Section 313 Subsection 2 No. 4 of the German Commercial Code is omitted insofar as, pursuant to Section 313 Subsection 3 Sentence 4 of the HGB, such information is of minor relevance for a fair presentation of the profitability, liquidity and capital resources, and financial position of the Daimler Group. In addition, the statement of investments indicates which consolidated companies make use of the exemption pursuant to Section 264 Subsection 3 of the HGB and/or Section 264b of the HGB. The consolidated financial statements of Daimler AG release those subsidiaries from the requirements that would otherwise apply.

E.88

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
I. Consolidated subsidiaries			
Athlon Beheer International B.V.	Eindhoven, Netherlands	100.00	
Athlon Beheer Nederland B.V.	Eindhoven, Netherlands	100.00	
Athlon Car Lease Belgium N.V.	Machelen, Belgium	100.00	
Athlon Car Lease International B.V.	Eindhoven, Netherlands	100.00	
Athlon Car Lease Italy S.R.L.	Rome, Italy	100.00	
Athlon Car Lease Nederland B.V.	Eindhoven, Netherlands	100.00	
Athlon Car Lease Polska Sp. z o.o.	Warsaw, Poland	100.00	
Athlon Car Lease Portugal, Ida	Oeiras, Portugal	100.00	
Athlon Car Lease Rental Services B.V.	Eindhoven, Netherlands	100.00	
Athlon Car Lease Rental Services Belgium N.V.	Machelen, Belgium	100.00	
Athlon Car Lease S.A.S.	Le Bourget, France	100.00	
Athlon Car Lease Spain, S.A.	Barcelona, Spain	100.00	
Athlon Dealerlease B.V.	Eindhoven, Netherlands	100.00	
Athlon France S.A.S.	Le Bourget, France	100.00	
Athlon Germany GmbH	Düsseldorf, Germany	100.00	
Athlon Mobility Consultancy B.V.	Eindhoven, Netherlands	100.00	
Athlon Mobility Consultancy N.V.	Machelen, Belgium	100.00	
Athlon Rental Germany GmbH	Düsseldorf, Germany	100.00	
Athlon Sweden AB	Malmö, Sweden	100.00	
Athlon Switzerland AG	Schlieren, Switzerland	100.00	
Auto Testing Company, Inc.	Wilmington, USA	100.00	
AutoGravity Corporation	Wilmington, USA	100.00	
Banco Mercedes-Benz do Brasil S.A.	São Paulo, Brazil	100.00	
Belerofonte Empreendimentos Imobiliários Ltda.	São Paulo, Brazil	100.00	
Brooklands Estates Management Limited	Milton Keynes, United Kingdom	100.00	
Campo Largo Comercio de Veículos e Peças Ltda.	São Bernardo do Campo, Brazil	100.00	
car2go Canada Ltd.	Vancouver, Canada	100.00	
car2go China Co., Ltd.	Beijing, China	100.00	
car2go Danmark A/S	Kopenhagen, Denmark	100.00	
car2go Deutschland GmbH	Leinfelden-Echterdingen, Germany	100.00	
car2go Europe GmbH	Leinfelden-Echterdingen, Germany	75.00	
car2go Group GmbH	Leinfelden-Echterdingen, Germany	100.00	5
car2go Iberia S.L.U.	Madrid, Spain	100.00	
car2go Italia S.R.L.	Milan, Italy	100.00	
car2go N.A. LLC	Wilmington, USA	100.00	
car2go Nederland B.V.	Utrecht, Netherlands	100.00	
car2go Österreich GmbH	Vienna, Austria	100.00	
car2go Sverige AB	Stockholm, Sweden	100.00	
CARS Technik & Logistik GmbH	Wiedemar, Germany	100.00	5
CLIDET NO 1048 (Proprietary) Limited	Centurion, South Africa	100.00	
Conemaugh Hydroelectric Projects, Inc.	Wilmington, USA	100.00	
Coventry Lane Holdings, L.L.C.	Wilmington, USA	100.00	
DA Investments Co. LLC	Wilmington, USA	100.00	
DAF Investments, Ltd.	Wilmington, USA	100.00	
Daimler AC Leasing, d.o.o.	Ljubljana, Slovenia	52.00	
Daimler Australia/Pacific Pty. Ltd.	Melbourne, Australia	100.00	
Daimler Automotive de Venezuela C.A.	Valencia, Venezuela	100.00	
Daimler Buses North America Inc.	Oriskany, USA	100.00	
Daimler Canada Finance Inc.	Montreal, Canada	100.00	
Daimler Canada Investments Company	Halifax, Canada	100.00	
Daimler Capital Services LLC	Wilmington, USA	100.00	
Daimler Colombia S. A.	Bogota D.C., Colombia	100.00	
Daimler Export and Trade Finance GmbH	Berlin, Germany	100.00	5
Daimler Finance North America LLC	Wilmington, USA	100.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Daimler Financial Services AG	Stuttgart, Germany	100.00	5
Daimler Financial Services India Private Limited	Chennai, India	100.00	
Daimler Financial Services Japan Co., Ltd.	Kawasaki, Japan	100.00	
Daimler Financial Services México, S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Daimler Financial Services, S.A. de C.V., S.O.F.O.M., E.N.R.	Mexico City, Mexico	100.00	
Daimler Fleet Management GmbH	Stuttgart, Germany	100.00	5
Daimler Fleet Management Singapore Pte. Ltd.	Singapore, Singapore	100.00	
Daimler Fleet Management South Africa (Pty.) Ltd.	Centurion, South Africa	65.00	
Daimler Fleet Management UK Limited	Milton Keynes, United Kingdom	100.00	
Daimler Fleet Services A.S.	Istanbul, Turkey	100.00	
Daimler FleetBoard GmbH	Stuttgart, Germany	100.00	5
Daimler Greater China Ltd.	Beijing, China	100.00	
Daimler Grund Services GmbH	Schönefeld, Germany	100.00	5
Daimler India Commercial Vehicles Private Limited	Chennai, India	100.00	
Daimler Insurance Agency LLC	Wilmington, USA	100.00	
Daimler Insurance Services GmbH	Stuttgart, Germany	100.00	5
Daimler Insurance Services Japan Co., Ltd.	Tokyo, Japan	100.00	
Daimler Insurance Services UK Limited	Milton Keynes, United Kingdom	100.00	
Daimler International Finance B.V.	Utrecht, Netherlands	100.00	
Daimler Investments US Corporation	Wilmington, USA	100.00	
Daimler Manufactura, S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Daimler Mexico, S.A. de C.V.	Mexico City, Mexico	100.00	
Daimler Mobility Services GmbH	Leinfelden-Echterdingen, Germany	100.00	5
Daimler Motors Investments LLC	Wilmington, USA	100.00	
Daimler Nederland B.V.	Utrecht, Netherlands	100.00	
Daimler North America Corporation	Wilmington, USA	100.00	
Daimler North America Finance Corporation	Newark, USA	100.00	
Daimler Northeast Asia Parts Trading and Services Co., Ltd.	Beijing, China	100.00	
Daimler Parts Brand GmbH	Stuttgart, Germany	100.00	5
Daimler Re Brokers GmbH	Bremen, Germany	74.90	5
Daimler Re Insurance S.A. Luxembourg	Luxembourg, Luxembourg	100.00	
Daimler Real Estate GmbH	Berlin, Germany	100.00	5
Daimler Retail Receivables LLC	Farmington Hills, USA	100.00	
DAIMLER SERVICIOS CORPORATIVOS MEXICO S. DE R.L. DE C.V.	Mexico City, Mexico	100.00	
Daimler South East Asia Pte. Ltd.	Singapore, Singapore	100.00	
Daimler Trucks and Buses (China) Ltd.	Beijing, China	100.00	
Daimler Trucks Canada Ltd.	Mississauga, Canada	100.00	
Daimler Trucks Korea Ltd.	Seoul, South Korea	100.00	
Daimler Trucks North America LLC	Wilmington, USA	100.00	
Daimler Trucks Remarketing Corporation	Portland, USA	100.00	
Daimler Trust Holdings LLC	Farmington Hills, USA	100.00	
Daimler Trust Leasing Conduit LLC	Wilmington, USA	100.00	
Daimler Trust Leasing LLC	Farmington Hills, USA	100.00	
Daimler UK Limited	Milton Keynes, United Kingdom	100.00	
Daimler Vans Hong Kong Limited	Hong Kong, China	67.55	
Daimler Vans USA, LLC	Wilmington, USA	100.00	
Daimler Vehículos Comerciales Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Daimler Vermögens- und Beteiligungsgesellschaft mbH	Stuttgart, Germany	100.00	5
Daimler Verwaltungsgesellschaft für Grundbesitz mbH	Schönefeld, Germany	100.00	5
Daimler Vorsorge und Versicherungsdienst GmbH	Berlin, Germany	100.00	5
Daiproco Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	
DCS UTI LLC, Mercedes Series	Wilmington, USA	100.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Detroit Diesel Corporation	Detroit, USA	100.00	
Detroit Diesel Remanufacturing LLC	Detroit, USA	100.00	
Detroit Diesel Remanufacturing Mexicana, S. de R.L. de C.V.	Toluca, Mexico	100.00	
Detroit Diesel-Allison de Mexico, S. de R.L. de C.V.	San Juan Ixtacala, Mexico	100.00	
Deutsche Accumotive GmbH & Co. KG	Kirchheim unter Teck, Germany	100.00	5
EHG Elektroholding GmbH	Stuttgart, Germany	100.00	5
EvoBus (Schweiz) AG	Kloten, Switzerland	100.00	
EvoBus (U.K.) Ltd.	Coventry, United Kingdom	100.00	
EvoBus Austria GmbH	Wiener Neudorf, Austria	100.00	
EvoBus Belgium N.V.	Kobbegem-Asse, Belgium	100.00	
EvoBus Česká republika s.r.o.	Prague, Czech Republic	100.00	
EvoBus Danmark A/S	Koege, Denmark	100.00	
EvoBus France S.A.S.	Sarcelles, France	100.00	
EvoBus GmbH	Stuttgart, Germany	100.00	5
EvoBus Ibérica, S.A. (Sociedad Unipersonal)	Sámano, Spain	100.00	
EvoBus Italia S.p.A.	Bomporto, Italy	100.00	
EvoBus Nederland B.V.	Nijkerk, Netherlands	100.00	
EvoBus Polska Sp. z o.o.	Wolica, Poland	100.00	
EvoBus Portugal, S.A.	Mem Martins, Portugal	100.00	
EvoBus Sverige AB	Vetlanda, Sweden	100.00	
Freightliner Custom Chassis Corporation	Gaffney, USA	100.00	
Friesland Lease B.V.	Drachten, Netherlands	51.11	
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 1 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 2 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 3 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 4 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 5 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 6 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Alpha 7 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Beta OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Delta OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Epsilon OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Gamma 1 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Gamma 2 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Gamma 3 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft Daimler AG & Co. Gamma 4 OHG	Schönefeld, Germany	100.00	5, 8
Grundstücksverwaltungsgesellschaft EvoBus GmbH & Co. OHG	Schönefeld, Germany	100.00	5, 8
Hailo Network IP Limited	London, United Kingdom	100.00	
Hailo Network Ireland Ltd.	Dublin, Ireland	100.00	
Hailo Network Ltd.	London, United Kingdom	100.00	
Highway 2015-I. B.V.	Amsterdam, Netherlands	0.00	3
Intelligent Apps GmbH	Hamburg, Germany	68.86	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Interleasing Luxembourg S.A.	Windhof, Luxembourg	100.00	
Invema Assessoria Empresarial Ltda	São Paulo, Brazil	100.00	
Koppieview Property (Pty) Ltd	Zwartkop, South Africa	100.00	
LBBW AM-MBVEXW	Stuttgart, Germany	0.00	3
LBBW AM - Daimler Re Insurance	Luxembourg, Luxembourg	0.00	3
Li-Tec Battery GmbH	Kamenz, Germany	100.00	5
MBarc Credit Canada Inc.	Mississauga, Canada	100.00	
MDC Power GmbH	Kölleda, Germany	100.00	5
MDC Technology GmbH	Arnstadt, Germany	100.00	5
Mercedes AMG High Performance Powertrains Ltd	Brixworth, United Kingdom	100.00	
Mercedes-AMG GmbH	Affalterbach, Germany	100.00	5
Mercedes-Benz - Aluguer de Veículos, Unipessoal Lda.	Mem Martins, Portugal	100.00	
Mercedes-Benz (China) Ltd.	Beijing, China	75.00	
Mercedes-Benz (Thailand) Limited	Bangkok, Thailand	100.00	
Mercedes-Benz (Yangzhou) Parts Distribution Co., Ltd.	Yangzhou, China	100.00	
Mercedes-Benz Accessories GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz AG & Co. Grundstücksvermietung Objekte Leipzig und Magdeburg KG	Düsseldorf, Germany	100.00	3
Mercedes-Benz Antwerpen N.V.	Antwerp, Belgium	100.00	
Mercedes-Benz Argentina S.A.	Buenos Aires, Argentina	100.00	
Mercedes-Benz Asia GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Assuradeuren B.V.	Utrecht, Netherlands	100.00	
Mercedes-Benz Australia/Pacific Pty Ltd	Melbourne, Australia	100.00	
Mercedes-Benz Auto Finance Ltd.	Beijing, China	100.00	
Mercedes-Benz Auto Lease Trust 2015-A	Wilmington, USA	0.00	3
Mercedes-Benz Auto Lease Trust 2015-B	Wilmington, USA	0.00	3
Mercedes-Benz Auto Lease Trust 2016-A	Wilmington, USA	0.00	3
Mercedes-Benz Auto Lease Trust 2016-1	Wilmington, USA	0.00	3
Mercedes-Benz Auto Lease Trust 2016-2	Wilmington, USA	0.00	3
Mercedes-Benz Auto Lease Trust 2016-B	Wilmington, USA	0.00	3
Mercedes-Benz Auto Receivables Trust 2013-1	Wilmington, USA	0.00	3
Mercedes-Benz Auto Receivables Trust 2014-1	Wilmington, USA	0.00	3
Mercedes-Benz Auto Receivables Trust 2015-1	Wilmington, USA	0.00	3
Mercedes-Benz Auto Receivables Trust 2016-1	Wilmington, USA	0.00	3
Mercedes-Benz Bank AG	Stuttgart, Germany	100.00	
Mercedes-Benz Bank GmbH	Salzburg, Austria	100.00	
Mercedes-Benz Bank Polska S.A.	Warsaw, Poland	100.00	
Mercedes-Benz Bank Rus OOO	Moscow, Russian Federation	100.00	
Mercedes-Benz Bank Service Center GmbH	Berlin, Germany	100.00	5
Mercedes-Benz Banking Service GmbH	Saarbrücken, Germany	100.00	5
Mercedes-Benz Belgium Luxembourg S.A.	Brussels, Belgium	100.00	
Mercedes-Benz Bordeaux S.A.S.	Begles, France	100.00	
Mercedes-Benz Broker Biztosítási Alkusz Hungary Kft.	Budapest, Hungary	100.00	
Mercedes-Benz Brooklands Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Canada Inc.	Toronto, Canada	100.00	
Mercedes-Benz Capital Rus OOO	Moscow, Russian Federation	100.00	
Mercedes-Benz Česká republika s.r.o.	Prague, Czech Republic	100.00	
Mercedes-Benz CharterWay España, S.A.	Alcobendas, Spain	100.00	
Mercedes-Benz CharterWay Gesellschaft mit beschränkter Haftung	Berlin, Germany	100.00	5
Mercedes-Benz CharterWay S.A.S.	Le Chesnay, France	100.00	
Mercedes-Benz CharterWay S.r.l.	Trent, Italy	100.00	
Mercedes-Benz Comercial, Unipessoal Lda.	Mem Martins, Portugal	100.00	
Mercedes-Benz Compañía Financiera Argentina S.A.	Buenos Aires, Argentina	100.00	
Mercedes-Benz Connectivity Services GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Corretora de Seguros Ltda	São Paulo, Brazil	99.98	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Mercedes-Benz CPH A/S	Horsholm, Denmark	100.00	
Mercedes-Benz Credit Pénzügyi Szolgáltató Hungary Zrt.	Budapest, Hungary	100.00	
Mercedes-Benz Danmark A/S	Kopenhagen, Denmark	100.00	
Mercedes-Benz Dealer Bedrijven B.V.	The Hague, Netherlands	100.00	
Mercedes-Benz Desarrollo de Mercados, S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Mercedes-Benz do Brasil Assessoria Comercial Ltda.	São Paulo, Brazil	100.00	
Mercedes-Benz do Brasil Ltda.	São Bernardo do Campo, Brazil	100.00	
Mercedes-Benz Drogenbos N.V.	Drogenbos, Belgium	100.00	
Mercedes-Benz Espana, S.A.U.	Alcobendas, Spain	100.00	
Mercedes-Benz Finance Co., Ltd.	Tokyo, Japan	90.00	
Mercedes-Benz Financial Services Australia Pty. Ltd.	Melbourne, Australia	100.00	
Mercedes-Benz Financial Services Austria GmbH	Salzburg, Austria	100.00	
Mercedes-Benz Financial Services BeLux NV	Brussels, Belgium	100.00	
Mercedes-Benz Financial Services Canada Corporation	Mississauga, Canada	100.00	
Mercedes-Benz Financial Services Česká republika s.r.o.	Prague, Czech Republic	100.00	
Mercedes-Benz Financial Services España, E.F.C., S.A.	Alcobendas, Spain	100.00	
Mercedes-Benz Financial Services France S.A.	Montigny-le-Bretonneux, France	100.00	
Mercedes-Benz Financial Services Hellas Vehicle Sales and Rental SA	Kifissia, Greece	100.00	
Mercedes-Benz Financial Services Hong Kong Ltd.	Hong Kong, China	80.00	
Mercedes-Benz Financial Services Italia SpA	Rome, Italy	100.00	
Mercedes-Benz Financial Services Korea Ltd.	Seoul, South Korea	80.00	
Mercedes-Benz Financial Services Nederland B.V.	Utrecht, Netherlands	100.00	
Mercedes-Benz Financial Services New Zealand Ltd	Auckland, New Zealand	100.00	
Mercedes-Benz Financial Services Portugal – Sociedade Financeira de Crédito S.A.	Mem Martins, Portugal	100.00	
Mercedes-Benz Financial Services Rus OOO	Moscow, Russian Federation	100.00	
Mercedes-Benz Financial Services Schweiz AG	Schlieren, Switzerland	100.00	
Mercedes-Benz Financial Services Singapore Ltd.	Singapore, Singapore	85.00	
Mercedes-Benz Financial Services Slovakia s.r.o.	Bratislava, Slovakia	75.00	
Mercedes-Benz Financial Services South Africa (Pty) Ltd	Centurion, South Africa	100.00	
Mercedes-Benz Financial Services Taiwan Ltd.	Taipei, Taiwan	100.00	
Mercedes-Benz Financial Services UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Financial Services USA LLC	Wilmington, USA	100.00	
Mercedes-Benz Finans Danmark A/S	Kopenhagen, Denmark	100.00	
Mercedes-Benz Finans Sverige AB	Malmö, Sweden	100.00	
Mercedes-Benz Finansal Kiralama Türk A.S.	Istanbul, Turkey	100.00	
Mercedes-Benz Finansman Türk A.S.	Istanbul, Turkey	100.00	
Mercedes-Benz Försäljnings AB	Malmö, Sweden	100.00	
Mercedes-Benz France S.A.S.	Montigny-le-Bretonneux, France	100.00	
Mercedes-Benz Gent N.V.	Gent, Belgium	100.00	
Mercedes-Benz Grand Prix Ltd.	Brackley, United Kingdom	60.00	
Mercedes-Benz Hellas S.A.	Kifissia, Greece	100.00	
Mercedes-Benz Hong Kong Limited	Hong Kong, China	100.00	
Mercedes-Benz India Private Limited	Pune, India	100.00	
Mercedes-Benz Insurance Broker S.R.L.	Voluntari, Romania	100.00	
Mercedes-Benz Insurance Services Nederland B.V.	Utrecht, Netherlands	100.00	
Mercedes-Benz Insurance Services Taiwan Ltd.	Taipei, Taiwan	100.00	
Mercedes-Benz Italia S.p.A.	Rome, Italy	100.00	
Mercedes-Benz Japan Co., Ltd.	Tokyo, Japan	100.00	
Mercedes-Benz Korea Limited	Seoul, South Korea	51.00	
Mercedes-Benz Leasing (Thailand) Co., Ltd.	Bangkok, Thailand	100.00	
Mercedes-Benz Leasing Co., Ltd.	Beijing, China	65.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Mercedes-Benz Leasing do Brasil Arrendamento Mercantil S.A.	Barueri, Brazil	100.00	
Mercedes-Benz Leasing GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Leasing Hrvatska d.o.o.	Zagreb, Croatia	100.00	
Mercedes-Benz Leasing IFN S.A.	Bukarest, Romania	100.00	
Mercedes-Benz Leasing Kft.	Budapest, Hungary	100.00	
Mercedes-Benz Leasing Polska Sp. z o.o.	Warsaw, Poland	100.00	
Mercedes-Benz Leasing Taiwan Ltd.	Taipei, Taiwan	100.00	
Mercedes-Benz Leasing Treuhand GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Ludwigsfelde GmbH	Ludwigsfelde, Germany	100.00	5
Mercedes-Benz Luxembourg S.A.	Luxembourg, Luxembourg	100.00	
Mercedes-Benz Lyon S.A.S.	Lyon, France	100.00	
Mercedes-Benz Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	51.00	
Mercedes-Benz Manhattan, Inc.	Wilmington, USA	100.00	
Mercedes-Benz Manufacturing (Thailand) Limited	Bangkok, Thailand	100.00	
Mercedes-Benz Manufacturing Hungary Kft.	Kecskemét, Hungary	100.00	
Mercedes-Benz Master Owner Trust	Wilmington, USA	0.00	3
Mercedes-Benz Mexico, S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Mercedes-Benz Milano S.p.A.	Milan, Italy	100.00	
Mercedes-Benz Minibus GmbH	Dortmund, Germany	100.00	5
Mercedes-Benz Mitarbeiter-Fahrzeuge Leasing GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Molsheim S.A.S.	Molsheim, France	100.00	
Mercedes-Benz Nederland B.V.	Utrecht, Netherlands	100.00	
Mercedes-Benz New Zealand Ltd	Auckland, New Zealand	100.00	
Mercedes-Benz Ninove N.V.	Ninove, Belgium	100.00	
Mercedes-Benz Österreich GmbH	Salzburg, Austria	100.00	
Mercedes-Benz Paris SAS	Port-Marly, France	100.00	
Mercedes-Benz Parts Manufacturing & Services Ltd.	Shanghai, China	100.00	
Mercedes-Benz Polska Sp. z o.o.	Warsaw, Poland	100.00	
Mercedes-Benz Portugal, S.A.	Mem Martins, Portugal	100.00	
Mercedes-Benz PRAHA s.r.o.	Prague, Czech Republic	100.00	
Mercedes-Benz Renting, S.A.	Alcobendas, Spain	100.00	
Mercedes-Benz Research & Development North America, Inc.	Wilmington, USA	100.00	
Mercedes-Benz Retail Group UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Retail, S.A.	Madrid, Spain	100.00	
Mercedes-Benz Risk Solutions South Africa (Pty.) Ltd.	Centurion, South Africa	100.00	
Mercedes-Benz Roma S.p.A.	Rome, Italy	100.00	
Mercedes-Benz Romania S.R.L.	Bukarest, Romania	100.00	
Mercedes-Benz Russia AO	Moscow, Russian Federation	100.00	
Mercedes-Benz Schweiz AG	Schlieren, Switzerland	100.00	
Mercedes-Benz Service Leasing S.R.L.	Bukarest, Romania	100.00	
Mercedes-Benz Services Correduria de Seguros, S.A.	Alcobendas, Spain	100.00	
Mercedes-Benz Services Malaysia Sdn Bhd	Petaling Jaya, Malaysia	100.00	
Mercedes-Benz Sigorta Aracilik Hizmetleri A.S.	Istanbul, Turkey	100.00	
Mercedes-Benz Sosnowiec Sp. z o.o.	Sosnowiec, Poland	100.00	
Mercedes-Benz South Africa Ltd	Pretoria, South Africa	100.00	
Mercedes-Benz Sverige AB	Malmö, Sweden	100.00	
Mercedes-Benz Taiwan Ltd.	Taipei, Taiwan	51.00	
Mercedes-Benz Türk A.S.	Istanbul, Turkey	66.91	
Mercedes-Benz U.S. International, Inc.	Vance, USA	100.00	
Mercedes-Benz Ubezpieczenia Sp. z o.o.	Warsaw, Poland	100.00	
Mercedes-Benz UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz USA, LLC	Wilmington, USA	100.00	
Mercedes-Benz V.I. Lille SAS	Vendeville, France	100.00	
Mercedes-Benz V.I. Lyon SAS	Genas, France	100.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Mercedes-Benz V.I. Paris Ile de France SAS	Wissous, France	100.00	
Mercedes-Benz Vans, LLC	Wilmington, USA	100.00	
Mercedes-Benz Versicherung AG	Stuttgart, Germany	100.00	5
Mercedes-Benz Vertrieb NFZ GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Vertrieb PKW GmbH	Stuttgart, Germany	100.00	5
Mercedes-Benz Vietnam Ltd.	Ho Chi Minh City, Vietnam	70.00	
Mercedes-Benz Warszawa Sp. z o.o.	Warsaw, Poland	100.00	
Mercedes-Benz Waterloo S.A.	Braine-L'Alleud, Belgium	100.00	
Mercedes-Benz Wavre S.A.	Wavre, Belgium	100.00	
Mercedes-Benz Wemmel N.V.	Wemmel, Belgium	100.00	
Mercedes-Benz Wholesale Receivables LLC	Wilmington, USA	100.00	
MFTA Canada, Inc.	Toronto, Canada	100.00	
Mitsubishi Fuso Truck and Bus Corporation	Kawasaki, Japan	89.29	
mitsubishi fuso truck europe - Sociedade Europeia de Automóveis, S.A.	Tramagal, Portugal	100.00	
Mitsubishi Fuso Truck of America, Inc.	Logan Township, USA	100.00	
moovel Group GmbH	Stuttgart, Germany	100.00	5
moovel North America, LLC	Wilmington, USA	100.00	
Multifleet G.I.E	Le Bourget, France	50.10	8
Multistate LIHTC Holdings III Limited Partnership	Wilmington, USA	100.00	8
MVSA COMPANY, INC.	Jacksonville, USA	100.00	
myTaxi Iberia SL	Barcelona, Spain	100.00	
N.V. Mercedes-Benz Aalst	Erembodegem, Belgium	100.00	
N.V. Mercedes-Benz Mechelen	Mechelen, Belgium	100.00	
NuCellSys GmbH	Kirchheim unter Teck, Germany	100.00	
P.T. Mercedes-Benz Distribution Indonesia	Jakarta, Indonesia	100.00	
P.T. Mercedes-Benz Indonesia	Bogor, Indonesia	100.00	
P.T. Star Engines Indonesia	Bogor, Indonesia	100.00	
PayCash Europe S.A.	Luxembourg, Luxembourg	100.00	
PayCash Labs AG	Küsnacht, Switzerland	100.00	
Renting del Pacifico S.A.C.	Lima, Peru	100.00	
Sandown Motor Holdings (Pty) Ltd	Bryanston, South Africa	62.62	
SelecTrucks of America LLC	Portland, USA	100.00	
SelecTrucks of Toronto, Inc.	Mississauga, Canada	100.00	
Setra of North America, Inc.	Oriskany, USA	100.00	
Silver Arrow China 2016-1 Auto Loan Asset Backed notes Trust c/o CITIC Trust Co., Ltd.	Beijing, China	0.00	3
Silver Arrow China 2016-2 Auto Loan Asset Backed notes Trust c/o CITIC Trust Co., Ltd.	Beijing, China	0.00	3
Silver Arrow S.A.	Luxembourg, Luxembourg	0.00	3
smart France S.A.S.	Hambach, France	100.00	
smart Vertriebs gmbh	Berlin, Germany	100.00	5
Special Lease Systems (SLS) B.V	Eindhoven, Netherlands	100.00	
Star Assembly SRL	Sebes, Romania	100.00	
Starexport Trading S.A.	São Bernardo do Campo, Brazil	100.00	
Sterling Truck Corporation	Portland, USA	100.00	
Sumperská správa majetku k.s.	Prague, Czech Republic	100.00	8
Thomas Built Buses of Canada Limited	Calgary, Canada	100.00	
Thomas Built Buses, Inc.	High Point, USA	100.00	
Tróia Empreendimentos Imobiliários Ltda	São Paulo, Brazil	100.00	
Trona Cogeneration Corporation	Wilmington, USA	100.00	
Ucafleet S.A.S	Le Bourget, France	65.00	
Western Star Trucks Sales, Inc	Portland, USA	100.00	
Zuidlease B.V.	Sittard, Netherlands	51.00	
3218095 Nova Scotia Company	Halifax, Canada	100.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
II. Unconsolidated subsidiaries²			
AEG Olympia Office GmbH	Stuttgart, Germany	100.00	
Anota Fahrzeug Service- und Vertriebsgesellschaft mbH	Berlin, Germany	100.00	
Brefa Bremsen- und Fahrzeugdienst AG (in Liquidation)	Niederzier, Germany	100.00	4
car2go Belgium SPRL	Brussels, Belgium	100.00	
car2go UK Ltd.	Milton Keynes, United Kingdom	100.00	
Circulo Cerrado S.A. de Ahorro para Fines Determinados	Buenos Aires, Argentina	72.17	
Croove GmbH	Munich, Germany	100.00	
Cúspide GmbH	Stuttgart, Germany	100.00	
Daimler AG & Co. Anlagenverwaltung OHG	Ludwigsfelde, Germany	100.00	8
Daimler Ceská republika Holding s.r.o.	Prague, Czech Republic	100.00	
Daimler Commercial Vehicles Africa Ltd.	Nairobi, Kenya	100.00	
Daimler Commercial Vehicles MENA FZE	Dubai, United Arab Emirates	100.00	
Daimler Commercial Vehicles Thailand Ltd.	Bangkok, Thailand	100.00	
Daimler Compra y Manufactura Mexico S. de R.L. de C.V.	Mexico City, Mexico	100.00	
Daimler Culture Development Co., Ltd.	Beijing, China	50.00	3
Daimler Financial Services UK Trustees Ltd.	Milton Keynes, United Kingdom	100.00	
Daimler Gastronomie GmbH	Esslingen am Neckar, Germany	100.00	
Daimler Group Services Berlin GmbH	Berlin, Germany	100.00	
Daimler Group Services Madrid, S.A.U.	San Sebastián de los Reyes, Spain	100.00	
Daimler International Assignment Services USA, LLC	Wilmington, USA	100.00	
Daimler IT Retail GmbH	Böblingen, Germany	100.00	
Daimler Mitarbeiter Wohnfinanz GmbH	Stuttgart, Germany	100.00	
Daimler Protics GmbH	Leinfelden-Echterdingen, Germany	100.00	
Daimler Purchasing Coordination Corp.	Wilmington, USA	100.00	
Daimler Starmark A/S	Horsholm, Denmark	100.00	
Daimler Trucks Asia Taiwan Ltd.	Taipei, Taiwan	51.00	
Daimler TSS GmbH	Ulm, Germany	100.00	
Daimler UK Share Trustee Ltd.	Milton Keynes, United Kingdom	100.00	
Daimler UK Trustees Limited	Milton Keynes, United Kingdom	100.00	
Daimler Unterstützungskasse GmbH	Stuttgart, Germany	100.00	7
Deméter Empreendimentos Imobiliários Ltda.	São Paulo, Brazil	100.00	
Deutsche Accumotive Verwaltungs-GmbH	Kirchheim unter Teck, Germany	100.00	
EvoBus Reunion S. A.	Le Port, France	96.00	
EvoBus Russland OOO	Moscow, Russian Federation	100.00	
Fünfte Vermögensverwaltungsgesellschaft Zeus mbH	Stuttgart, Germany	100.00	
Gemini-Tur Excursoes Passagens e Turismo Ltda.	São Paulo, Brazil	100.00	
Lapland Car Test Aktiebolag	Arvidsjaur, Sweden	100.00	
Legend Investments Ltd.	Milton Keynes, United Kingdom	100.00	
MB GTC GmbH Mercedes-Benz Gebrauchtteile Center	Neuhausen auf den Fildern, Germany	100.00	
Mercedes-Benz AG & Co. Grundstücksvermietung Objekte Baden-Baden und Dresden OHG	Düsseldorf, Germany	100.00	3, 8
Mercedes-Benz Adm. Consorcios Ltda.	São Bernardo do Campo, Brazil	100.00	
Mercedes-Benz Cars Middle East FZE	Dubai, United Arab Emirates	100.00	
Mercedes-Benz Consulting GmbH	Leinfelden-Echterdingen, Germany	100.00	
Mercedes-Benz Customer Assistance Center Maastricht N.V.	Maastricht, Netherlands	100.00	
Mercedes-Benz Egypt S.A.E.	New Cairo, Egypt	100.00	
Mercedes-Benz Energy Americas LLC	Wilmington, USA	100.00	
Mercedes-Benz Energy GmbH	Kamenz, Germany	100.00	
Mercedes-Benz G GmbH	Raaba, Austria	100.00	
Mercedes-Benz Group Services Phils., Inc.	Cebu City, Philippines	100.00	
Mercedes-Benz Hungária Kft.	Budapest, Hungary	100.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Mercedes-Benz Manufacturing Poland sp. z o.o.	Warsaw, Poland	100.00	
Mercedes-Benz Manufacturing Rus Ltd	Veshki, Russian Federation	80.00	
Mercedes-Benz Museum GmbH	Stuttgart, Germany	100.00	
Mercedes-Benz Parts Logistics Ibérica, S.L.U.	Azuqueca de Henares, Spain	100.00	
Mercedes-Benz Parts Logistics UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Project Consult GmbH	Stuttgart, Germany	100.00	
Mercedes-Benz Research & Development Tel Aviv Ltd.	Tel-Aviv, Israel	100.00	
Mercedes-Benz Research and Development India Private Limited	Bangalore, India	100.00	
Mercedes-Benz Slovakia s.r.o.	Bratislava, Slovakia	100.00	
Mercedes-Benz Solihull Ltd.	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Srbija i Crna Gora d.o.o.	Novi Beograd, Serbia	100.00	
Mercedes-Benz Trucks España S.L.U.	Alcobendas, Spain	100.00	
Mercedes-Benz Trucks UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Vans España, S.L.U.	Madrid, Spain	100.00	
Mercedes-Benz Vans Mobility GmbH	Berlin, Germany	100.00	
Mercedes-Benz Vans UK Limited	Milton Keynes, United Kingdom	100.00	
Mercedes-Benz Venezuela S.A.	Valencia, Venezuela	100.00	
MercedesService Card Beteiligungsgesellschaft mbH	Kleinostheim, Germany	51.00	
Mitsubishi Fuso Bus Manufacturing Co., Ltd.	Toyama, Japan	100.00	
Monarch Cars (Tamworth) Ltd.	Milton Keynes, United Kingdom	100.00	
Montajes y Estampaciones Metálicas, S.L.	Esparraguera, Spain	51.00	
mytapp Portugal Unipessoal LDA	Lisbon, Portugal	100.00	
mytaxi Austria GmbH	Vienna, Austria	100.00	
MYTAXI ITALIA S.R.L.	Milan, Italy	100.00	
MYTAXI POLSKA SPÓLKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Warsaw, Poland	100.00	
mytaxi Sweden AB	Stockholm, Sweden	100.00	
myTaxi Swiss GmbH	Zurich, Switzerland	100.00	
myTaxi UG	Hamburg, Germany	100.00	
myTaxi UK Ltd.	London, United Kingdom	100.00	
myTaxi USA Inc.	New York, USA	100.00	
NAG Nationale Automobil-Gesellschaft Aktiengesellschaft	Stuttgart, Germany	100.00	
ogotrac S.A.S.	Paris, France	100.00	
PABCO Co., Ltd.	Ebina, Japan	100.00	
Porcher & Meffert Grundstücksgesellschaft mbH & Co. Stuttgart OHG	Schönefeld, Germany	100.00	8
PT Fuso Trucks Indonesia	Jakarta, Indonesia	100.00	
R.T.C. Management Company Limited	Bicester, United Kingdom	88.89	
Reva SAS	Cunac, France	100.00	
Ring Garage AG Chur	Chur, Switzerland	100.00	
Ruth Verwaltungsgesellschaft mbH	Stuttgart, Germany	100.00	
Sechste Vermögensverwaltungsgesellschaft Zeus mbH	Stuttgart, Germany	100.00	
SelecTrucks Comércio de Veículos Ltda	Mauá, Brazil	100.00	
Star Egypt For Import LLC	New Cairo, Egypt	99.50	
STAR TRANSMISSION SRL	Cugir, Romania	100.00	
STARKOM d.o.o.	Maribor, Slovenia	100.00	
T.O.C. (Schweiz) AG	Schlieren, Switzerland	51.00	
Vermögensverwaltungsgesellschaft Daimler Atlanta mbH	Stuttgart, Germany	100.00	
Zweite Vermögensverwaltungsgesellschaft Zeus mbH	Stuttgart, Germany	100.00	
III. Joint operations accounted for using proportionate consolidation			
Cooperation Manufacturing Plant Aguascalientes, S.A.P.I de C.V.	Mexico City, Mexico	50.00	

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
IV. Joint operations accounted for using the equity method			
AFCC Automotive Fuel Cell Cooperation Corp.	Burnaby, Canada	50.10	
EM-motive GmbH	Hildesheim, Germany	50.00	
North America Fuel Systems Remanufacturing LLC	Kentwood, USA	50.00	
V. Joint ventures accounted for using the equity method			
Beijing Foton Daimler Automotive Co., Ltd	Beijing, China	50.00	
Daimler Kamaz Trucks Holding GmbH	Vienna, Austria	50.00	
Enbase Power GmbH	Munich, Germany	25.10	
Fujian Benz Automotive Co., Ltd.	Fuzhou, China	50.00	
Polomex, S.A. de C.V.	Garcia, Mexico	26.00	
SelecTrucks of Atlanta LLC	McDonough, USA	50.00	
SelecTrucks of Houston LLC	Houston, USA	50.00	
SelecTrucks of Houston Wholesale LLC	Houston, USA	50.00	
SelecTrucks of Omaha LLC	Council Bluffs, USA	50.00	
Shenzhen DENZA New Energy Automotive Company Limited	Shenzhen, China	50.00	
TASIAP GmbH	Stuttgart, Germany	60.00	
Toll Collect GbR	Berlin, Germany	45.00	8
Toll Collect GmbH	Berlin, Germany	45.00	
Wagenplan B.V.	Almere, Netherlands	50.00	
VI. Associated companies accounted for using the equity method			
BAIC Motor Corporation Ltd.	Beijing, China	10.08	
Beijing Benz Automotive Co., Ltd.	Beijing, China	49.00	
BlackLane GmbH	Berlin, Germany	30.57	
FlixMobility GmbH	Munich, Germany	5.67	
FUSO LAND TRANSPORT & Co. Ltd.	Kawasaki, Japan	21.67	
KAMAZ PAO	Naberezhnye Chelny, Russian Federation	15.00	
Kanagawa Mitsubishi Fuso Truck & Bus Sales Co., Ltd.	Yokohama, Japan	43.83	
MBtech Group GmbH & Co. KGaA	Sindelfingen, Germany	35.00	
MV Agusta Motor S.P.A.	Varese, Italy	25.00	
Okayama Mitsubishi Fuso Truck & Bus Sales Co., Ltd.	Okayamashi, Japan	50.00	
P.T. Krama Yudha Tiga Berlian Motors	Jakarta, Indonesia	18.00	
P.T. Mitsubishi Krama Yudha Motors and Manufacturing	Jakarta, Indonesia	32.28	
There Holding B.V.	Rijswijk, Netherlands	33.33	
VII. Joint operations, joint ventures and associated companies accounted for at (amortized) cost²			
Abgaszentrum der Automobilindustrie GbR	Weissach, Germany	25.00	8
BDF IP Holdings Ltd.	Burnaby, Canada	33.00	
Beijing Mercedes-Benz Sales Service Co., Ltd.	Beijing, China	51.00	
COBUS Industries GmbH	Wiesbaden, Germany	40.82	
Esslinger Wohnungsbau GmbH	Esslingen am Neckar, Germany	26.57	
European Center for Information and Communication Technologies – EICT GmbH	Berlin, Germany	20.00	
EvoBus Hungária Kereskedelmi Kft.	Budapest, Hungary	33.33	
Gottapark, Inc.	San Francisco, USA	18.09	
Grundstücksgesellschaft Schlossplatz 1 mbH & Co. KG	Berlin, Germany	18.37	
H2 Mobility Deutschland GmbH & Co. KG	Berlin, Germany	2.90	
INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH	Berlin, Germany	20.00	
Juffali Industrial Products Company	Jeddah, Saudi Arabia	0.00	6

Name of the Company	Domicile, Country	Capital share in % ¹	Footnote
Laureus World Sports Awards Limited	London, United Kingdom	50.00	
MBtech Verwaltungs-GmbH	Sindelfingen, Germany	35.00	
Mercedes-Benz Starmark I/S	Vejle, Denmark	50.00	
MercedesService Card GmbH & Co. KG	Kleinostheim, Germany	51.00	
MFTB Taiwan Co., Ltd.	Taipei, Taiwan	33.40	
National Automobile Industry Company Ltd.	Jeddah, Saudi Arabia	26.00	
Omuta Unso Co., Ltd.	Ohmuta, Japan	33.51	
PDB – Partnership for Dummy Technology and Biomechanics GbR	Ingolstadt, Germany	20.00	8
smart-BRABUS GmbH	Bottrop, Germany	50.00	
STARCAM s.r.o.	Most, Czech Republic	51.00	
The Mobility House AG	Zurich, Switzerland	13.99	
tiramizoo GmbH	Munich, Germany	18.46	
Toyo Kotsu Co., Ltd.	Sannoseki, Japan	28.20	
UNION TANK Eckstein GmbH & Co. KG	Kleinostheim, Germany	15.00	

1 Share pursuant to Section 16 of the German Stock Corporation Act (AktG)

2 As the impact of these companies is not material for the consolidated financial statements, they are not consolidated and not accounted for using the equity method.

3 Control due to economic circumstances

4 In liquidation

5 Qualification for Section 264, Subsection 3 and Section 264b of the German Commercial Code (HGB)

6 Joint control due to economic circumstances

7 Control of the investment of the assets. No consolidation of the assets due to the contractual situation.

8 Daimler AG or one respectively several consolidated subsidiaries are the personally liable partner.

Daimler AG or one respectively several consolidated subsidiaries are the personally liable partner:
MOST Cooperation GbR; Karlsruhe (Germany)



We pursue a sustainable and sound dividend policy

At the Annual Shareholders' Meeting on March 29, 2017, the Board of Management and the Supervisory Board will therefore propose the payment of a dividend of €3.25 per share (prior year: €3.25). We aim to achieve a sustainable dividend development also in the coming years. In setting the dividend, our target is to distribute approximately 40% of the net profit attributable to Daimler shareholders.

F | Further Information

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Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for DAG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, February 10, 2017



Dieter Zetsche



Wolfgang Bernhard



Renata Jungo Brüngger



Ola Källenius



Wilfried Porth



Britta Seeger



Hubertus Troska



Bodo Uebber

Independent Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Daimler AG, Stuttgart, and its subsidiaries, which comprise the consolidated statement of income, the consolidated statement of comprehensive income/loss, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to the consolidated financial statements for the financial year from January 1 to December 31, 2016.

Board of Management's Responsibility for the Consolidated Financial Statements

The Board of Management of Daimler AG is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), to give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Management is also responsible for the internal controls that the Board of Management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to Section 322 (3) sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016 as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Combined Management Report

We have audited the accompanying group management report of Daimler AG, which is combined with the management report of the company for the financial year from January 1 to December 31, 2016. The Board of Management of Daimler AG is responsible for the preparation of this combined management report in compliance with the applicable requirements of German commercial law pursuant to Section 315a (1) HGB. We are required to conduct our audit in accordance with Section 317 (2) HGB and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, complies with the German statutory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and the combined management report, the combined management report is consistent with the consolidated financial statements, complies with the German statutory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 10, 2017

KPMG AG Wirtschaftsprüfungsgesellschaft

Becker
Wirtschaftsprüfer

Dr. Thümler
Wirtschaftsprüfer

Ten Year Summary

F.01

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
€ amounts in millions										
From the statements of income										
Revenue	101,569	98,469	78,924	97,761	106,540	114,297	117,982	129,872	149,467	153,261
Personnel expenses ^{1,2}	20,256	15,066	13,928	16,454	17,424	18,002	18,753	19,607	20,949	21,141
Research and development expenditure ³	4,148	4,442	4,181	4,849	5,634	5,644	5,489	5,680	6,564	7,572
thereof capitalized	990	1,387	1,285	1,373	1,460	1,465	1,284	1,148	1,804	2,315
EBIT ²	8,710	2,730	-1,513	7,274	8,755	8,820	10,815	10,752	13,186	12,902
Operating margin (%) ²	8.6	2.8	-1.9	7.4	8.2	7.7	9.2	8.3	8.8	8.4
Profit (loss) before income taxes ²	9,181	2,795	-2,298	6,628	8,449	8,116	10,139	10,173	12,744	12,574
Net operating profit (loss) ²	4,123	1,370	-2,102	5,120	6,240	7,302	9,173	7,678	9,007	9,007
as % of net assets (RONA) ^{2,4}	10.5	4.4	-6.6	17.5	19.9	19.6	22.6	18.8	20.1	19.1
Net profit (loss) ²	3,985	1,414	-2,644	4,674	6,029	6,830	8,720	7,290	8,711	8,784
Net profit (loss) per share (€) ²	3.83	1.41	-2.63	4.28	5.32	6.02	6.40	6.51	7.87	7.97
Diluted net profit (loss) per share (€) ²	3.80	1.40	-2.63	4.28	5.31	6.02	6.40	6.51	7.87	7.97
Total dividend	1,928	556	0	1,971	2,346	2,349	2,407	2,621	3,477	3,477
Dividend per share (€)	2.00	0.60	0.00	1.85	2.20	2.20	2.25	2.45	3.25	3.25
From the statements of financial position										
Property, plant and equipment	14,650	16,087	15,965	17,593	19,180	20,599	21,779	23,182	24,322	26,381
Leased equipment	19,638	18,672	18,532	19,925	22,811	26,058	28,160	33,050	38,942	46,942
Other non-current assets ²	39,686	42,077	40,044	41,309	45,023	48,947	48,138	56,258	62,055	67,613
Inventories	14,086	16,805	12,845	14,544	17,081	17,720	17,349	20,864	23,760	25,384
Liquid assets	15,631	6,912	9,800	10,903	9,576	10,996	11,053	9,667	9,936	10,981
Other current assets	31,403	31,672	31,635	31,556	34,461	38,742	42,039	46,614	58,151	65,687
Total assets ²	135,094	132,225	128,821	135,830	148,132	163,062	168,518	189,635	217,166	242,988
Shareholders' equity ²	38,230	32,730	31,827	37,953	41,337	39,330	43,363	44,584	54,624	59,133
thereof share capital	2,766	2,768	3,045	3,058	3,060	3,063	3,069	3,070	3,070	3,070
Equity ratio Group (%) ²	26.9	24.3	24.7	26.5	26.3	22.7	24.3	22.1	23.6	22.9
Equity ratio industrial business (%) ²	43.7	42.7	42.6	45.8	46.4	39.8	43.4	40.8	44.2	44.7
Non-current liabilities ²	47,998	47,313	49,456	44,738	51,940	65,016	66,047	78,077	85,461	99,398
Current liabilities ²	48,866	52,182	47,538	53,139	54,855	58,716	59,108	66,974	77,081	84,457
Net liquidity industrial business	12,912	3,106	7,285	11,938	11,981	11,508	13,834	16,953	18,580	19,737
Net assets (average) ^{2,4}	39,187	31,466	31,778	29,338	31,426	37,521	40,648	40,779	44,796	47,054

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
€ amounts in millions										
From the statements of cash flows ¹										
Investments in property, plant and equipment	4,247	3,559	2,423	3,653	4,158	4,827	4,975	4,844	5,075	5,889
Depreciation and amortization	4,146	3,023	3,264	3,364	3,575	4,067	4,368	4,999	5,384	5,478
Cash provided by (used for) operating activities	7,146	-786	10,961	8,544	-696	-1,100	3,285	-1,274	222	3,711
investing activities	26,479	-4,812	-8,950	-313	-6,537	-8,864	-6,829	-2,709	-9,722	-14,666
financing activities	-25,204	-2,915	1,057	-7,551	5,842	11,506	3,855	2,274	9,631	12,009
Free cash flow of the industrial business	7,637	-3,915	2,706	5,432	989	1,452	4,842	5,479	3,960	3,874
From the stock exchanges										
Share price at year-end (€)	66.50	26.70	37.23	50.73	33.92	41.32	62.90	68.97	77.58	70.72
Average shares outstanding (in millions)	1,037.8	957.7	1,003.8	1,050.8	1,066.0	1,066.8	1,068.8	1,069.8	1,069.8	1,069.8
Average diluted shares outstanding (in millions)	1,047.3	959.9	1,003.8	1,051.5	1,067.1	1,067.1	1,069.1	1,069.8	1,069.8	1,069.8
Ratings										
Credit rating, long-term										
Standard & Poor's	BBB+	A-	BBB+	BBB+	BBB+	A-	A-	A-	A-	A
Moody's	A3	A2 ⁵								
Fitch	A-	A-	BBB+	BBB+	A-	A-	A-	A-	A-	A-
DBRS	A (low)									
Average annual number of employees	271,704	274,330	258,628	258,120	267,274	274,605	275,384	279,857	284,562	284,957

1 Until August 3, 2007, including Chrysler.

2 For the year 2012, the figures have been adjusted, primarily for effects arising from application of the amended version of IAS 19.

3 For the year 2013, the figure has been adjusted due to reclassifications within functional costs.

4 In the context of fine tuning the performance measurement system, the definition of net assets was adjusted with retroactive effect as of 2015.

5 As of February 3, 2017.

Glossary

BRIC

This abbreviation stands for the four countries of Brazil, Russia, India and China.

CASE

Four strategic fields for the future of mobility: connectivity (Connected), autonomous driving (Autonomous), flexible use and services (Shared & Services), and electric drive systems (Electric).

Compliance

By the term compliance, we understand adherence to all laws, rules, regulations and voluntary commitments, as well as the related internal guidelines and policies in connection with all activities of the Daimler Group.

Consolidated Group

The consolidated Group is the total of all those companies that are included in the consolidated financial statements.

Corporate governance

The term corporate governance applies to the proper management and supervision of a company. The structure of corporate governance at Daimler AG is determined by Germany's Stock Corporation Act (AktG), Codetermination Act (MitbestG) and capital-market legislation.

Cost of capital

The cost of capital is the product of the average amount of capital employed and the cost-of-capital rate. The cost-of-capital rate is derived from the investors' required rate of return. [👁 page 96](#)

CSR – corporate social responsibility

A collective term for the social responsibility assumed by companies, including economic, environmental and social aspects.

EBIT

Earnings before interest and taxes are the measure of operating profit before taxes. [👁 pages 103ff](#)

Equity method

Accounting and valuation method for shareholdings in associated companies and joint ventures.

EU30

The region EU30 includes the 28 member states of the European Union plus Norway and Switzerland.

Fair value

The amount for which an asset or liability could be exchanged in an arm's length transaction between knowledgeable and willing parties who are independent of each other.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair values assigned to the separately identifiable assets acquired and liabilities assumed.

Hybrid drive

Hybrid drive systems combine internal-combustion engines with electric motors, which can be operated separately or together depending on the type of vehicle and driving situation.

IFRS – International Financial Reporting Standards

The IFRS are a set of standards and interpretations for companies' external accounting and financial reporting developed by an independent private-sector committee, the International Accounting Standards Board (IASB).

Integrity Code

The "Integrity Code" has been in effect since November 2012. It defines the principles of behavior and guidelines for everyday conduct that are applicable at Daimler. Fairness, responsibility and compliance with legislation are key principles in this context.

INTELLIGENT DRIVE

With this new technology from Mercedes-Benz, thanks to improved environment sensors, intelligent assistance systems analyze complex situations and recognize potential dangers in road traffic even better.

Index

Lithium-ion batteries

They are at the heart of future electric drive systems. Compared with conventional batteries, lithium-ion batteries are considerably smaller and feature significantly higher power density, short charging times and long lives.

NEDC – New European Driving Cycle

A measuring method used in Europe for the objective assessment of vehicles' fuel consumption.

Net assets

Net assets represent the capital employed by the Group and the industrial divisions. The relevant capital basis for Daimler Financial Services is equity capital.

 [page 108](#)

Net operating profit

Net operating profit is the relevant parameter for measuring the Group's operating performance after taxes.

Rating

An assessment of a company's creditworthiness issued by a rating agency.

ROE – return on equity

The profitability of Daimler Financial Services is measured by return on equity. ROE is defined as the quotient of EBIT and shareholders' equity.

ROS – return on sales

The profitability of the industrial divisions is measured by return on sales. ROS is defined as the quotient of EBIT and revenue.

Value added

Value added indicates the extent to which operating profit exceeds the cost of capital. When value added is positive, return on net assets is higher than the cost of capital.

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Value at risk

This measures the potential future loss (related to market value) for a given portfolio in a certain period and for which there is a certain probability that it will not be exceeded.

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Daimler Worldwide

F.02

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Sales Organization Automotive Businesses	Daimler Financial Services
Europe						
Production locations	11	7	3	7	-	-
Sales outlets	-	-	-	-	3,960	52
Revenue (in millions of euros)	38,261	10,466	9,958	3,009	-	8,026
Employees	122,852	36,871	21,361	15,499	-	7,786
NAFTA						
Production locations	1	14	1	1	-	-
Sales outlets	-	-	-	-	1,491	4
Revenue (in millions of euros)	19,782	13,445	1,375	283	-	10,440
Employees	8,360	19,508	524	485	-	1,880
Latin America (excluding Mexico)						
Production locations	1	2	1	3	-	-
Sales outlets	-	-	-	-	712	2
Revenue (in millions of euros)	939	1,455	399	554	-	285
Employees	679	8,162	1,886	1,383	-	362
Africa						
Production locations	1	-	-	1	-	-
Sales outlets	-	-	-	-	378	1
Revenue (in millions of euros)	1,328	1,047	212	86	-	277
Employees	3,799	443	115	61	-	176
Asia						
Production locations	2	3	-	2	-	-
Sales outlets	-	-	-	-	2,282	9
Revenue (in millions of euros)	27,067	6,258	666	200	-	1,383
Employees	3,877	13,359	41	426	-	1,645
Australia/Oceania						
Production locations	-	-	-	-	-	-
Sales outlets	-	-	-	-	250	2
Revenue (in millions of euros)	1,924	507	222	39	-	249
Employees	380	299	102	45	-	213

Notes: Unconsolidated revenue of each division (segment revenue).

Internet, Information, Addresses

Information on the Internet

Special information on our shares and earnings development can be found in the “Investor Relations” section of our website. daimler.com It includes the Group’s annual and interim reports and the company financial statements of Daimler AG. You can also find topical reports, presentations, an overview of various key figures, information on our share price and other services.

daimler.com/investors

Publications for our shareholders:

Annual Report
(German, English)

Interim Reports for the 1st, 2nd and 3rd quarters
(German, English)

Focus on Sustainability 2016
(German, English)

Daimler Corporate Brochure – Ready to start up
(German, English)



daimler.com/ir/reports
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