

E | Non-Financial Report

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On the following pages, we publish for the first time a non-financial report in accordance with Sections 289b – 289e, 315b and c of the German Commercial Code (HGB).

This report applies to Daimler AG and to the Daimler Group. It contains the main information on the aspects of environmental, employee and social matters, combating corruption and bribery, and respect for human rights.

The information provided in this report is presented in conformity with the GRI Standards of the Global Reporting Initiative, insofar as this complies with applicable law. Some aspects are presented in accordance with internal guidelines and definitions.

Information on our business model [page 90 ff.](#) of the Annual Report 2017 and on non-financial risks connected with the aspects presented in this report (Risk and Opportunity Report [pages 167, 168](#) of the Annual Report 2017) is provided in the Combined Management Report in the Annual Report 2017.

Further information on our sustainability activities can be found online at [daimler.com/sustainability](https://www.daimler.com/sustainability) and in our annual Sustainability Report, which can be downloaded there as a PDF data file.

Sustainability at Daimler

For Daimler, acting in line with the principles of sustainability means striving to achieve long-term business success. Sustainability is a basic principle of our corporate strategy as well as a metric for our success as a company. We aim to make our activities compatible with the interests of the environment and society. One of our core tasks is to offer safe, fuel-efficient and low-emission vehicles.

Our Sustainability Strategy 2030

We believe that a long-term sustainability strategy and effective sustainability management are the preconditions for ensuring that we remain one of the world's leading automobile manufacturers in the future. As part of our Group-wide sustainability strategy, we set targets and define target indicators. Taken together, all of these targets form our comprehensive target program for the medium and long terms.

In the year under review we involved the relevant stakeholders in the restructuring of our sustainability strategy and reorganized our priorities with the help of a multistage materiality analysis. We have focused on the areas that are significantly influenced by our business model and our value chain – areas where we can actually bring about change. Our Sustainability Strategy 2030 concentrates on four focal topics:

1. Vehicles
2. Digitalization
3. Mobility services
4. Responsible conduct

Through our Sustainability Strategy 2030, we would like to explicitly help to achieve the Sustainable Development Goals (SDGs) that were approved by the United Nations in September 2015. Our four prioritized focal topics and the sustainability-related activities that underlie them support the following Sustainable Development Goals (SDGs) in particular:

- **SDG 8** – Decent Work and Economic Growth
By developing and implementing a risk-based management approach to respecting and upholding human rights in our own units and our supply chain, we support the implementation of decent work as defined by SDG 8.
- **SDG 9** – Industry, Innovation and Infrastructure
Through the advanced development of automated and autonomous driving and the expected benefits for safety and climate protection, we demonstrate the long-term potential of digital innovations.
- **SDG 11** – Sustainable Cities and Communities
As the global leader for flexible car sharing (car2go), we support the creation of sustainable urban spaces for traffic and community life.
- **SDG 12** – Responsible Consumption and Production
By significantly reducing and reinforcing the material cycles of primary raw materials that are needed for our e-drive system, we are setting the course for sustainable production models in line with this SDG.
- **SDG 13** – Climate Change
By setting ambitious targets for reducing the emissions of our fleets, we are helping to protect the planet from the effects of climate change.

The Daimler Sustainability Strategy 2030 determines the structure of our sustainability management activities and our annual sustainability reporting. In addition, when we identified the key aspects to be addressed by this non-financial report, we took the focal topics of our sustainability strategy as our starting point. However, in some cases we emphasize different aspects because of the divergent requirements set by the standards and laws that are relevant to this report.

Sustainable corporate governance

Our sustainability objectives and their management are part of our corporate governance system and are also incorporated into the targets of our executives.

The Corporate Sustainability Board (CSB) is our central management body for all sustainability issues. The CSB is headed by Renata Jungo Brüngger (the Board of Management member responsible for Integrity and Legal Affairs) and Ola Källenius (the Board of Management member responsible for Group Research & Mercedes-Benz Cars Development). The operational work is done by the Corporate Sustainability Office (CSO), which consists of representatives from the specialist units and the business divisions.

Integrity, compliance and legal responsibility are the cornerstones of our sustainable corporate governance and serve as the basis of all our actions. Our Integrity Code defines the guidelines for our daily business conduct, offers our employees orientation and helps them make the right decisions even in difficult business situations. The Integrity Code is supplemented by other in-house principles and guidelines.

The ten principles of the UN Global Compact provide a fundamental guideline for our business operations. As a founding member and part of the LEAD group, we are strongly committed to the Global Compact. Our internal principles and guidelines are founded on this international frame of reference and other international principles, including the Core Labor Standards of the International Labor Association (ILO) and the OECD Guidelines for Multinational Enterprises.

Sustainability in our supply chain

Our commitment to sustainable corporate management does not end at the factory gates. We also urgently require our direct suppliers all over the world to comply with our sustainability standards. Moreover, we expect them to behave with integrity and in conformity with all the applicable rules and regulations. Our direct suppliers are subject to our Supplier Sustainability Standards, which require, among other things, compliance with wide-ranging environmental regulations and respect for human rights. Our direct suppliers commit themselves to observing our sustainability standards, communicating them to their employees and passing them along to their own supplier companies. We support them in these activities by regularly providing them with information as well as training and qualification measures.

To ensure that our direct suppliers comply with the sustainability standards, we regularly conduct a risk analysis of our suppliers according to country and product group. We use regular database research to discover any violations of our sustainability and compliance rules by our current suppliers. We systematically follow up all reports of violations. With the help of an online survey, we also question our main suppliers about their sustainability management and their communication of these requirements to their upstream value chains. On the basis of the results, we reach agreements with our suppliers on improving their sustainability performance.

In the case of suppliers selected on a risk basis, our employees ask specific questions during their on-site assessments concerning compliance with sustainability standards. We also conduct a more thorough assessment whenever this is necessary.

We have established a complaint-management process that enables individuals to draw attention to possible human rights violations at suppliers. In this context, we work together closely with the world employee committee. We bring together all the available information and take action only if the reports are well-founded. The suppliers are requested to respond to the accusations; after that, the responsible management committees assess the facts of the case and take the necessary measures. This can lead up to the termination of a business relationship. In addition to the complaint-management process, information on misconduct can always be submitted to the whistleblower system BPO established by Daimler.

[page 229](#)

In the year under review, reports were received concerning suspected violations by suppliers of rules concerning working conditions and the treatment of employees, which we are systematically investigating.

Environmental Issues

Protecting the environment is a primary corporate objective of our 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. They also express our commitment to integrated environmental protection that addresses the underlying factors with 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.

Climate protection

Product development

A vehicle's environmental impact is largely decided during the first stages of its development. The earlier we integrate environmentally responsible product development (Design for Environment, DfE) into the development process, the more efficiently we can minimize the impact on the environment.

For every vehicle model and every engine variant, we have catalogues of specifications that define the characteristics and target values that must be achieved. These specifications include requirements concerning fuel consumption and emissions limit values for CO₂ and nitrogen oxides. During the development process we regularly monitor compliance with these specifications.

In a committee situated directly below the Board of Management level, the managers responsible for each vehicle model series evaluate the results of this monitoring process and decide on any necessary corrective measures. If corrections are needed, the responsible member of the Board of Management is included in the decision-making. If the situation continues to escalate, the managing body of the respective division is also included.

The CO₂ process in vehicle development

All of the divisions integrate all vehicle-related goals, including those that are relevant to the environment, into their vehicle development process according to a similar pattern. The chart **7 E.01** shows the Mercedes-Benz Development System (MDS) as an example.

In many markets there are fleet targets for the fuel consumption and CO₂ emissions of cars and light commercial vehicles – in other words, overall targets for all the vehicles sold in a given market. The corresponding controlling process for reaching the CO₂ fleet consumption target for Cars Europe (EU 28) is shown as an example.

The key factors for determining the target values for fuel consumption and CO₂ emissions are the technological possibilities, the legal requirements including the fleet targets for fuel consumption, and customer wishes. The body responsible for complying with these goals is the CO₂ steering committee, which is headed by the Board of Management member responsible for Group Research and Mercedes-Benz Cars Development.

The fleet values for CO₂ emissions are calculated on the basis of the fuel economy figures of the vehicles available on the market and the fuel economy specifications and prognoses for vehicles that are still in the development phase. These values are combined with the sales forecasts to arrive at the projected fleet consumption values for CO₂ emissions.

The actual values may deviate from the projected target values because of various external factors such as alterations in the sales structure, changes in the political framework conditions or changes in the fuel consumption target values of the vehicles that are still in the development phase. In case of a deviation, the CO₂ steering committee organizes an assessment of various options and then decides on the measures to be initiated. If the need for adjustment is especially urgent, the process is escalated to the responsible managing body. From a strategic standpoint, this process takes place over a period of approximately ten years.

CO₂ emissions per car: 125 g/km

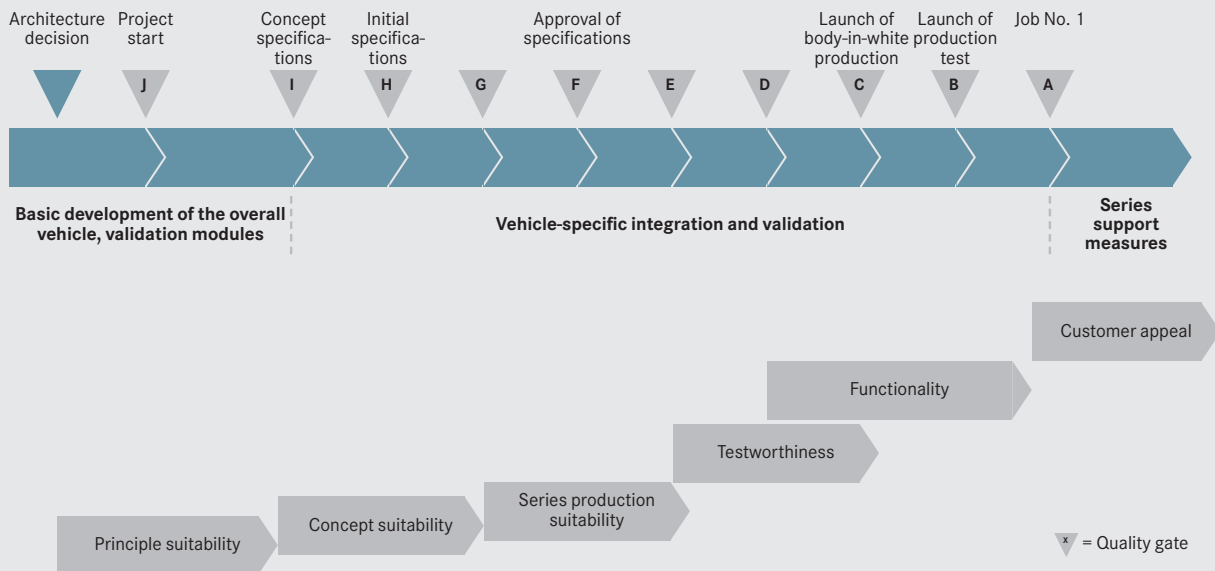
We are working hard to reduce the fuel consumption of our vehicles. As early as 2015, we were able to reduce the CO₂ emissions of newly registered vehicles from Mercedes-Benz Cars in the EU to an average of 123 grams per kilometer. This means we achieved our 2016 target of 125 g/km ahead of schedule. In 2017, emissions rose slightly to 125 g/km because of the shift in sales toward vehicles equipped with higher-quality appointments.

The new WLTP test cycle

Since September 2017, all of our new car models in Europe have been certified according to the Worldwide Harmonized Light Vehicles Test Procedure (WLTP). This test procedure includes numerous changes compared to the previous New European Driving Cycle (NEDC). The changes include higher average and maximum speeds, more dynamic handling, gliding

E.01

Vehicle product creation process for individual vehicles



inertial masses instead of inertia classes, a smaller standstill share of total fuel consumption, and consideration of optional extras and the quiescent current requirement. Overall, these changes are leading to more realistic, but also higher, fuel economy values.

In order to obtain data that is comparable, the fleet emissions of the individual automakers are now being calculated back from the certification values of the WLTP test cycle to the CO₂ fleet values of the New European Driving Cycle (NEDC). The transition to WLTP basically means for all manufacturers that the requirements regarding a fleet's fuel consumption, and thus its CO₂ emissions, have become much more stringent. However, this transition did not yet have significant effects in 2017. By means of extensive investment in innovative drive technologies and a comprehensive expansion of the product range with more than 50 electrified models, Daimler/Mercedes-Benz Cars is preparing to achieve the more stringent EU targets. At the same time, strong customer demand for SUVs is leading to a shift of the structural mix towards mid-sized and large automobiles, which presents us with a significant challenge to meet the targets of the European Union in 2021.

We continue to work hard to meet all statutory CO₂ requirements, including the very challenging EU limits for 2021. As we often emphasize, the fulfillment of these challenging fleet targets depends not only on offering appealing and highly efficient products with electric drive systems, but also on our customers' actual decisions to buy those models. In order to optimally position ourselves in this respect, we are systematically changing over our product range to the latest engine generations, and are also systematically electrifying our portfolio with plug-

in hybrids and all-electric vehicles. [pages 124 ff of the Annual Report 2017](#)

Clean air

New RDE emission legislation

In order to more accurately correlate exhaust gas emissions from real-life driving operation with the threshold values of the test cycle, a new mandatory testing process has been introduced in Europe. Since the introduction of the Real Driving Emissions (RDE) test procedure in September 2017, vehicles must, among other things, have the number of particulates and the concentration of nitrogen oxides determined with the help of a mobile emission measurement system. The new testing process supplements the mandatory exhaust gas tests that are still conducted on test rigs.

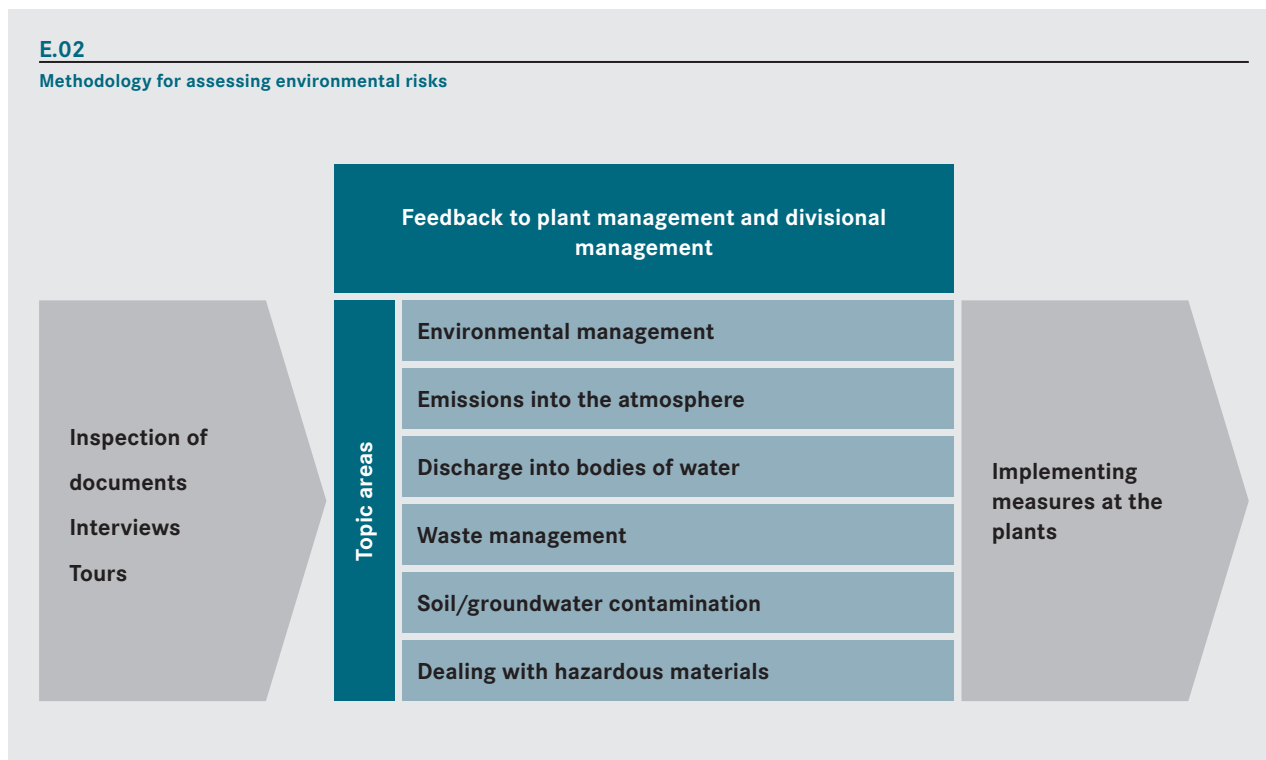
The RDE threshold values have applied since September 2017 to newly registered vehicle models. Starting in September 2019, they will apply to all new vehicles. During the first stage, the Euro 6 threshold value for certification may be exceeded by a factor of 2.1. During the second stage, which will start in September 2020 or 2021, the Euro 6 threshold value may be exceeded by a factor of 1.5.

High tech against pollutants

Our goal is to fulfill emission requirements as far in advance as possible and to reduce potential risks for humans and environment. In order to comply with the tougher requirements of the RDE regulations, we have had to make, and are still making, extensive changes, at considerable expense, to the drivetrains of our vehicles. Especially significant in this regard is the

E.02

Methodology for assessing environmental risks



exhaust gas aftertreatment near the engine. In the past, for most of the vehicle models of many manufacturers, catalytic converters and diesel particulate filter (DPF) systems were mounted on the underbody of the vehicle, relatively far from the engine. In the new Mercedes-Benz diesel engines, we have successfully managed to position the entire exhaust gas aftertreatment system extremely close to the engine. As a result, the system is heated up very rapidly and doesn't quickly cool off. As a result, the working temperature needed by the system is reached considerably faster. This enables more effective exhaust gas aftertreatment and significantly reduces the NO_x emissions in stationary testing situations and also in the RDE testing procedure in real-life driving operation.

As early as 2016, Mercedes-Benz began offering diesel vehicles that were able to meet the Real Driving Emissions (RDE) limit values long before they went into effect in the EU in 2017. This achievement was made possible by an all-new modular family of efficient and low-emission diesel engines. In the future, this modular engine family will be utilized across the entire product range of Mercedes-Benz Cars and also at Mercedes-Benz Vans. The first engines of this family – the four-cylinder OM654 and the six-cylinder OM656 – are already on the road. The new engines' exemplary emission values have also been validated by measurements conducted at independent institutes.

Plan for the future of diesel vehicles

We are convinced that diesel engines will continue to be an integral part of the drive-system mix, not least due to their low CO₂ emissions. For this reason, the Daimler Board of Management approved a comprehensive plan for the future of diesel engines in July 2017. The plan calls for a massive expansion of the previously introduced voluntary service measures for vehi-

cles already in customers' hands, as well as the rapid market launch of a completely new diesel engine family. As early as March 2017, Mercedes-Benz began offering its compact-class customers an improvement in NO_x emissions for one engine variant. The company is also carrying out voluntary service measures for V-Class customers. In order to effectively lower the emissions of other model series, we decided in July 2017 to extend the service measures, which are free of charge for our customers, to encompass more than three million Mercedes-Benz vehicles at a cost of approximately €285 million. The measures are being carried out for most Euro 5 and Euro 6 vehicles in Europe and other markets in close cooperation with vehicle registration authorities.

Additional measures were added to this initiative for better air quality following a summit meeting between the government and the automotive industry in Berlin in August 2017. In order to modernize the fleet of vehicles on the road effectively, we are offering owners of Euro 1 to Euro 4 diesel cars an "environment bonus" of €2,000 if they trade in their vehicles for a new Euro 6 diesel-powered car or a plug-in hybrid from Mercedes-Benz. We are also supporting the introduction of vehicles that meet the stricter emission limits of the RDE testing procedure.

Daimler is participating in the mobility fund that has been jointly launched by the German government and German industry, in line with our company's market share. This fund will primarily be used to finance measures that improve traffic flows in inner cities.

Conservation of resources

Consistently high recyclability

To make our vehicles more environmentally friendly, we are working to continuously reduce the resources our automobiles consume over their entire life cycles.

During the development process of a vehicle, we prepare a recycling concept for each vehicle model in which all of its components and materials are examined with a view to their suitability for the various stages of the recycling process. As a result, all Mercedes-Benz car models are up to 85% recyclable and up to 95% recoverable.

The key aspects of our activities in the area of recycling are:

- the resale of tested and certified used parts through the Mercedes-Benz Used Parts Center (GTC),
- the remanufacturing of used parts, and
- the workshop waste disposal system MeRSy (Mercedes-Benz Recycling System).

Production-related environmental protection

Our commitment to the environment is an integral component of our corporate strategy, which focuses on increasing the value of the company over the long term. For this reason, we have established environmental management systems at our manufacturing locations with the goal of ensuring that we can produce our vehicles safely, efficiently and at a high level of quality in an environmentally friendly manner that complies with all legal stipulations. We also carry out environmental risk assessments at all production locations in which the Group has a majority interest in the ownership structure.

We have achieved a high level of air quality control, climate protection and resource conservation (in terms of water consumption, waste management and soil conservation). We intend to maintain this high level with the help of the Daimler Group standards. The environmental and energy-related guidelines approved by the Board of Management define the environmental and energy-related policy of the Daimler Group. The guidelines also express our commitment to integrated environmental protection. That begins with the assessment of the causes of environment problems and takes into account the environmental effects of production processes and products as early as the planning and development phases.

Environmental protection measures at our production locations are coordinated across business units by three regional committees (Germany/Europe, North and South America, and Asia) that are centrally managed. These measures are regulated in line with a Group guideline and organizational and technical standards.

The environmental measures are monitored by external auditors (ISO 14001 certification, EMAS validation) and by internal environmental risk assessments (the due diligence process).

We conduct training sessions through the respective local organizations. The important content of our training sessions includes water pollution control, wastewater treatment, emergency management in case of environmentally relevant mal-

functions, and the planning of plants and workplaces in accordance with environmental protection principles.

Minimizing environmental risks

In 1999 we developed a methodology for assessing environmental risks (environmental due diligence) as a tool for preventing risks to the environment and complying with statutory requirements. We have applied this methodology throughout the Group since 2000, both internally and also externally in connection with our acquisition plans. During this period we have conducted three complete risk assessments at the Daimler production plants of Mercedes-Benz Cars, Mercedes-Benz Vans, Daimler Trucks and Daimler Buses. The results of these assessments were reported to the management of the locations, and summaries were provided to the management of the respective divisions. The fourth round of environmental risk assessments began in 2014. A number of new risk aspects have been integrated into the topic areas. Nonetheless, we have not changed the methods or the tools, because we want these results to be comparable with the results of the assessments that have already been carried out. [➤ E.02](#)

In this way, all the production locations are being visited and assessed in five-year cycles according to well-established and standardized procedures. The results are reported to the plant and divisional managements, and the Group annually assesses the implementation of the recommendations for minimizing risks at the locations. In this way, we are striving to enforce the high environmental standards to which we have committed ourselves at all of our production locations around the world.

In 2017 we were also able to audit all the locations of the Daimler Buses division. The most important results were in the areas of rainwater pollution and rainwater drainage, as well as the proper storage of hazardous substances.

Mobility services

In addition to our products' high level of environmental compatibility and our environmentally friendly and efficient production processes, we also strive to provide innovative mobility services on the road to emission-free driving. That's why we have developed a range of pioneering mobility concepts and are forging ahead with innovative approaches – from the car-sharing provider car2go and the mobility platform moovel to the taxi app mytaxi and our participation in the coach company FlixBus and the Bus Rapid Transit (BRT) system. Recent additions to this list were the service portal Blacklane and Croove, a car rental service operated by and for private individuals.

Employee Issues

The success of Daimler AG and its subsidiaries is largely dependent on the skills and commitment of our employees. More than 289,000 people promote our company’s success worldwide by contributing their concepts and ideas to their respective tasks and work processes and by helping to make improvements and create innovations. Trusting relationships with employees are therefore more than just an ethical and legal requirement for us – without them we would not be able to conduct our business successfully.

General figures regarding the development of our workforce numbers can be found in the Employees section of the Management Report. [page 128 f of the Annual Report 2017](#)

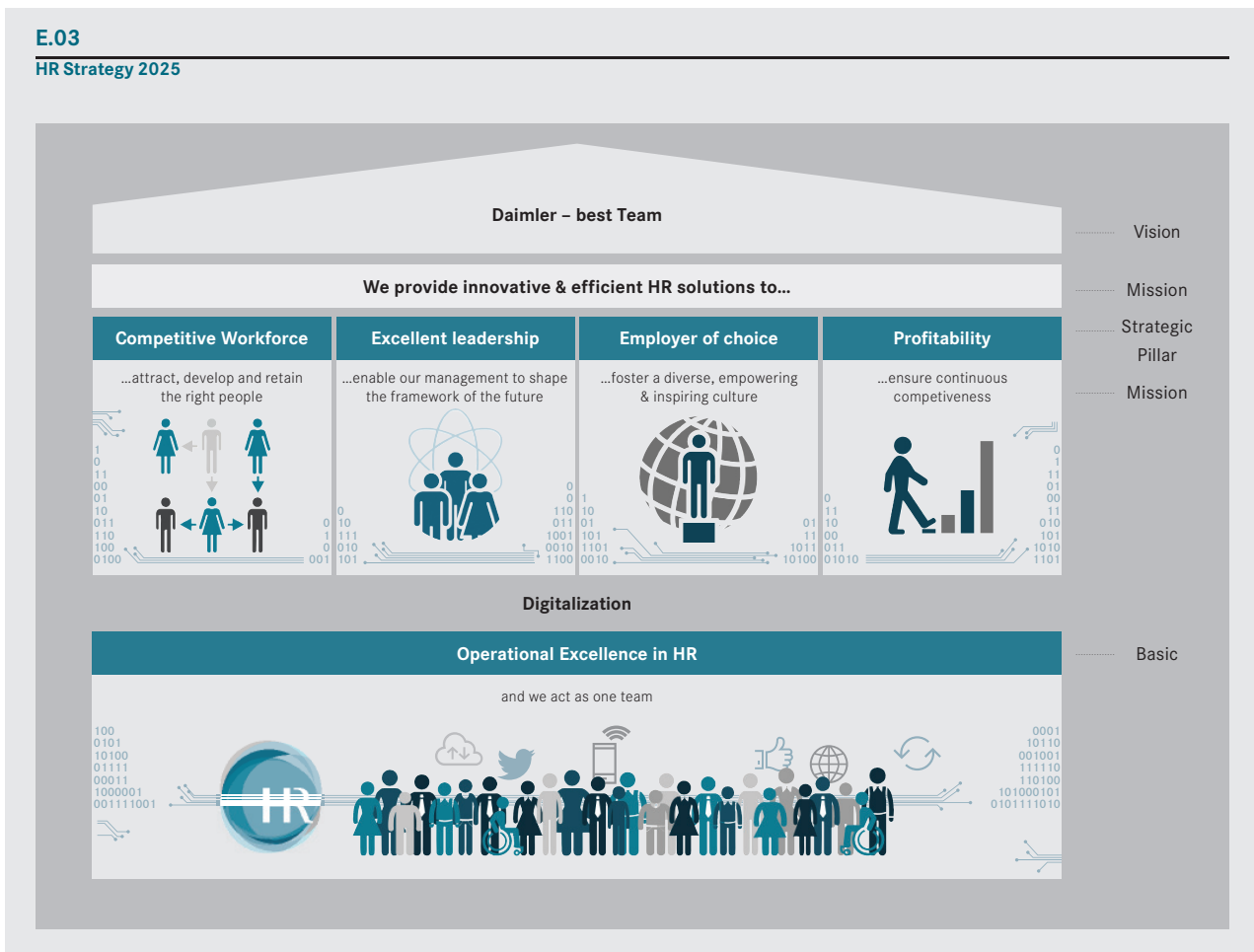
In order to recruit, develop and retain highly qualified staff, we are continuously striving to further improve our attractiveness as an employer. Because our managers should motivate their employees to achieve top performance, it is crucial that we equip our managers with outstanding leadership skills. In addition, we want to take on social responsibility and let diversity flourish in our global company.

A professional HR organization and efficient operating processes form the basis for the implementation of these overarching goals, from which we have derived key areas of action that are linked to clearly defined objectives.

The main control tool we use is our HR Scorecard, which uses key performance indicators concerning demographic development, diversity and sick rates to provide information about the sustainability of human resources measures and processes in the individual areas of action.

E.03

HR Strategy 2025



Partnership with the employees

We want to work together with our employees as partners, respect their interests and get them involved in the company by continuously providing them with information and enabling them to participate in decision-making processes. To achieve these goals, we are guided not only by the International Labor Organization's (ILO) work and social standards but also by our "Principles of Social Responsibility." In these principles, we commit ourselves, among other things, to respect key employee rights, ranging from the provision of equal opportunities to the right to receive equal pay for equal work. Violations of these principles can be reported to the whistleblower system BPO, which addresses further investigations to the pertinent units.

Our employees have the right to organize themselves in labor unions. We also ensure this right in countries in which freedom of association is not legally protected. We work together constructively with the employee representatives and the trade unions. Important partners here include the local works councils, the European Works Council and the World Employee Committee (WEC). We have signed collective bargaining agreements for all of the employees at Daimler AG, and this also applies to the majority of our employees throughout the Group. In a variety of committees, we regularly inform the employee representatives about the economic situation and all of the key changes at Daimler AG and the Group. We conclude agreements with the respective workers' representative bodies concerning the effects of our decisions on the employees. In Germany, comprehensive regulations to this effect are contained in the Works Council Constitution Act. We notify our employees about far-reaching changes early on.

One result of the ongoing dialogue between the corporate management and the employees' association was the renewal of the company-wide "Safeguarding the Future of Daimler" agreement in 2015. This accord, which is valid until 2020, enables the company to respond to the "future plan" agreements that have been reached at many of the locations of Daimler AG with concrete investment commitments, flexible personnel assignment models and the possibility of selectively increasing staffing requirements. As a result, we can make use of market opportunities and better absorb fluctuations in demand. The company-wide agreement essentially protects all of the employees of Daimler AG in Germany from being laid off until the end of 2020.

The expansion of this Safeguarding the Future agreement is also an integral part of "Project Future" and is being implemented in close cooperation with the employee representatives.

If "Project Future" is implemented, Daimler AG's Safeguarding the Future agreement will be extended until 2029, thus in principle excluding terminations for operational reasons until December 31, 2029. Another key point of this reconciliation of interests for the employees is the nearly full funding of the pension obligations. With regard to the latter, Daimler contributed €3 billion to Daimler AG's German pension assets in the fourth quarter of the year under review.

High attractiveness as an employer

Our activities and measures for enhancing our attractiveness as an employer are designed to enable us to recruit and retain a sufficient number of specialized employees and qualified managers in the competition for talented staff. Our primary objectives here are to ensure attractive and fair compensation and to establish and maintain a work culture that enables outstanding performance and a high level of motivation and satisfaction among our employees and managers.

Attractive and fair remuneration

We remunerate work in accordance with the same principles at all our affiliates around the world. Our Corporate Compensation Policy, which is valid for all groups of employees, establishes the framework conditions and minimum requirements for the design of the remuneration systems. Internal audits are conducted on a random basis to make sure these conditions and requirements are met. In our desire to offer salaries and benefits that are customary in the industry and the respective markets, we also give consideration to local market conditions within the specified framework. The salaries are determined on the basis of the employees' tasks and performance, and in line with their qualifications and experience. In setting the remuneration of the employees we are not guided by gender or place of origin, but exclusively by the employee's job and responsibility.

The general remuneration level is significantly above the legal minimum wages that apply to many locations. In cases where Daimler AG and its Group companies have signed collective bargaining agreements, they often also offer voluntary benefits that are agreed upon with the respective employees' associations. These benefits primarily consist of employer-funded retirement contributions as well as profit-sharing agreements for the respective company. For example, the eligible employees of Daimler AG will receive a profit-sharing payout of €5,700 (2016: €5,400) for 2017. In addition, our employees can avail themselves of a wide variety of sports facilities and social amenities, ranging from daycare centers to the counseling service for people in extreme situations.

In 2017, the Group spent €18.2 billion (thereof Daimler AG: €11.5 billion) on wages and salaries, €3.3 billion (thereof Daimler AG: €1.8 billion) on social welfare services, and €0.7 billion (thereof Daimler AG: €0.6 billion) on retirement benefits for a workforce numbering 289,530 on average (thereof Daimler AG: 151,091).

Modern working conditions

Working conditions are being increasingly influenced by working hours, workplaces, the work environment, the level of employee empowerment and a state-of-the-art management culture. The length of our employees' workweek is generally regulated by the company or by a collective bargaining agreement. In Germany, overtime is only performed within the framework of a requirements planning forecast and has to be approved by the employee representatives. In general, we allocate working times in such a way that remuneration remains stable even if the amount of work sometimes fluctuates. This is made possible by a time-account system.

Flexible working arrangements

Today's living and working conditions require working times to be flexibly organized in accordance with individual needs. Our approach is therefore to challenge our employees to achieve top performance and support their efforts to do so, rather than focusing on their mere presence at work. For this reason, we also seek to improve performance by helping employees and managers reconcile their professional and personal responsibilities.

We also boost employees' flexibility and self-determination by giving them the opportunity for mobile working. An associated company agreement has been in force at Daimler AG since December 2016. The agreement gives employees the right to mobile working if the task permits.

We also promote job sharing, in which two employees share the same task/position and work together up to 60 hours per week. This provides managers in particular with a means of reconciling the needs of work and family.

Furthermore, company agreements at Daimler AG enable employees to suspend their careers for several years for a qualification program or a sabbatical or to provide home care – with the promise that they can return to Daimler AG afterwards.

We encourage all employees who take parental leave to subsequently return to their jobs at the company because we value their knowledge and experience. In Germany, we offer 710 places in daycare centers in close proximity to our company locations as well as more than 180 reserved places at cooperating facilities. In addition, we cooperate with a third party that assists employees in finding childcare providers.

In 2017, around 3,950 employees at Daimler AG availed themselves of the opportunity to take parental leave. Moreover, around 500 employees took advantage of the opportunity to take off work for a prolonged period. In mid-2017, more than 160 employees were working in job-sharing positions at the team and department levels.

Leadership 2020 – further development of the management culture

Our business is changing at a rapid pace. In order to remain successful in the future, we are changing our management culture and the way we cooperate. This is why we launched the Leadership 2020 initiative in 2016. Employees from more than 40 countries and all levels of management are currently working on Daimler's future management culture. Guidance is provided by new management principles that, among other things, make the company faster and more flexible and boost its innovative potential. Procedures, processes and structures are being called into question and changed in eight "game changers." In its meetings, the Board of Management of Daimler AG regularly discusses the initiative's progress and decides which measures need to be taken.

Successful employee survey

Our Group-wide employee survey is a key indicator of where we currently stand from the point of view of our employees, and what we need to do to improve the company in the future. In September 2016, 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 the further development of the company. Overall, the results of the survey were much better than those from previous years. Some of the production facilities in certain countries identified areas of action for the reconciliation of the needs of work and family, communication, individual development opportunities and working conditions. These topics are now being addressed during the follow-up process. In 2018, we will reorganize the employee survey in order to measure and promote the company's continued cultural development.

Our employees' great loyalty to the company is also expressed by the amount of time they have worked for Daimler. During the year under review the average number of years our employees have worked for Daimler decreased slightly to 16.1 years (2016: 16.3 years). In Germany, employees had worked for the Group for an average of 19.5 years at the end of 2017 (2016: 19.5 years). The comparative figure for Daimler AG was 20.3 years (2016: 20.1 years). Daimler employees outside Germany had worked for the Group for an average of 11.0 years (2016: 11.3 years). In 2017, our labor turnover amounted to 5.1% worldwide (2016: 6.7%).

A competitive workforce

We can only be successful if we have a skilled and high-performing workforce. We therefore aim to continuously develop our employees and make sure they stay competitive. We are pursuing this goal by implementing measures in four overarching areas of action: diversity management, the securing of young talent, qualification, and health management and occupational safety.

Diversity management

Daimler promotes the diversity and heterogeneity of its employees, because they serve as the basis of a high-performing company. As a result, diversity management is included in our corporate strategy. 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.

Daimler's more than 289,000 employees from over 160 countries provide the Group with a vibrant mixture of cultures and ways of life. We utilize this diversity to put together optimized teams. Most of our managers abroad come from the respective regions. We promote the cultural diversity of our employees with worldwide staff assignments, mentoring, intercultural skills training and targeted recruiting measures. International candidates account for more than one third of the people recruited through our CAREer trainee program.

Our aim is to increase the share of women in management positions to 20% by the year 2020. More than 17% of our executives in middle and upper management currently are women. For Daimler AG, we signed a company-wide agreement for the advancement of women. It stipulates a target corridor for the proportion of women in the total workforce, in vocational training and in Level 4 and 5 management positions. In order to achieve our goals, we have installed an ongoing internal reporting and planning system.

The age differences at the company will rise in the future due to the increase in the retirement age and the extension of people's working lives. The average age of our global workforce in 2017 was 42.8 years (2016: 42.7). Our employees at Daimler AG were 44.7 years old on average (2016: 44.5). Demographic development will cause the average age to continue to rise in the years ahead. However, the proportion of older employees will decrease again over the long term because many baby boomers will retire from the company. We consider this transformation to be an opportunity, and we are adjusting the framework conditions accordingly. Our generation management system focuses on measures for maintaining the performance and health of younger and older employees as well as for promoting cooperation between people of different ages.

Once every quarter, the Board of Management discusses our diversity management activities and the associated results. We also hold discussions with external stakeholders as part of our involvement in the Diversity Charter, of which we are a founding member.

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. 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.

In 2017 we hired 97 trainees through our CAREer program. About 47% of the trainees were women and more than one third were international participants.

We recruit most of the young talent we need through our industrial-technical and commercial apprenticeships and the courses of study at the Cooperative University, which had 194 students in 2017.

At the end of 2017, we had 8,097 trainees throughout the Group (2016: 7,960), 4,409 (2016: 4,824) of them at Daimler AG. During the year under review, 1,278 (2016: 1,662) young people began an apprenticeship at Daimler AG; 1,197 (2016: 1,448) were hired after completing their apprenticeships. The costs for vocational training for Daimler AG totaled €114 million in 2017 (2016: €110 million).

Programs such as "Facharbeiter im Fokus" and the new team leader development program ensure that employees are extensively qualified according to uniform standards. The participants are given the opportunity to obtain good career prospects and plan concrete development goals. Our company's sustained success is closely linked to the high quality of our

E.04

Share of women

	2017	2016
In percent		
Share of women (worldwide)	18.5	17.7
Share of women (Daimler AG)	16.1	15.5
Share of women in Level 4 management positions (Daimler AG)	18.0	17.2
Women in senior management positions Levels 1-3 (worldwide)	17.6	16.7
Share of women at the second management level below that of the Board of Management (Daimler AG)	11.9	12.4
Share of women at the first management level below that of the Board of Management (Daimler AG)	8.7	8.1
Share of women on the Board of Management	25.0	12.5
Share of women on the Supervisory Board	25.0	25.0

E.05

Accident figures¹

	2017	2016	
Incidence of accidents			
Number of accidents (worldwide)	2,766	3,444	
Incidence of accidents (worldwide, number of work-related accidents that resulted in at least one lost day per 1 million hour of attendance)	Rate	7.5	9.4
Accident downtime (worldwide, number of lost days per 1 million hours of attendance)	106	123	
Number of deaths as a result of work-related accidents	1	4	
Number of employee deaths as a result of work-related accidents	0	2	
Number of deaths of third-party employees as a result of work-related accidents ²	1	2	

¹ Coverage rate of Daimler production locations (Mercedes-Benz Cars, Daimler Trucks, Daimler Buses, Mercedes-Benz Vans) worldwide: >98%.

² Unfortunately, a third-party employee suffered a fatal work-related accident in the United States in 2017.

managers. That's why we focus especially on the development of talented young managers. We validate young employees' leadership potential in our PV44 in-house assessment center, which uses a uniform standard for all of our locations.

The Board of Management member responsible for human resources regularly receives reports about the measures and results of our training activities and the development paths of the people who enter the company via our CAREer program.

Qualification

We provide our staff with training and continuing education opportunities for their professional and personal development throughout their careers. At least once a year, employees discuss qualification topics with their managers and agree on appropriate measures. The company agreement on qualification regulates continuing education at Daimler AG. This agreement also stipulates that employees can leave the company for up to five years in order to learn additional skills and are guaranteed that they can return. In 2017, around 370 employees availed themselves of this opportunity.

Our production locations are responsible for the qualification of managers and specialized employees in manufacturing. The Global Training unit safeguards and increases the skills of our employees at the Mercedes-Benz sales organization by having 700 trainers instruct about 200,000 participants each year at 100 training locations in 80 countries around the world. A total of 1.2 million training courses are held each year. The Daimler Corporate Academy program helps the Group develop a new management culture and world of work. In 2017, the Corporate Academy enabled a total of 63,000 specialized employees and managers from more than 50 locations to develop themselves further personally and professionally. At Daimler AG, we spent €121 million on the training and qualification of our employees in the year under review (2016: €122 million). On average, every employee spent three days on qualification courses in 2017 (2016: three days).

Health management and safety at the workplace

We want to maintain our employees' health and physical well-being for the long term. To this end, the Daimler Group has uniform preventive healthcare standards in place worldwide.

As part of Daimler AG's health management approach, we develop and implement anticipatory solutions that range from the job-related "Daimler GesundheitsCheck" and the ergonomic design of workstations to the IT system that makes it easier to permanently reintegrate employees suffering from limitations imposed by their health.

Our Health & Safety unit is responsible for occupational health and safety, company health-promotion efforts, ergonomics, counseling service and integration management. Health management and work safety are also governed by our risk management systems.

Company health promotion is aimed at motivating employees to develop healthy lifestyles and reinforcing their sense of personal responsibility regarding health issues. This objective is promoted worldwide with the help of campaigns, counseling and qualification offerings, as well as therapeutic and rehabilitation measures. All of our plants in Germany have health centers on their premises or cooperate with health centers located near the plants.

Occupational safety is firmly embedded at all levels of Daimler and is addressed by an extensive portfolio of measures for the prevention of work accidents, work-related illnesses and occupational diseases. Our Center of Competence Safety creates the associated Group-wide guidelines. We have standardized key occupational health and safety processes in order to enable the creation and advancement of integrated processes and systems. Every manager at Daimler is responsible for ensuring that all internal guidelines and legal requirements for occupational health and safety are complied with.

Every organizational unit within the Daimler Group has to approve and pursue occupational safety objectives on a regular basis in accordance with our globally valid occupational health and safety guidelines and occupational safety strategy and the results of internal audits and reviews. The content and criteria of our internal occupational safety management system correspond to the standards of BS OHSAS 18001 and are regularly updated.

The Board of Management receives a Health & Safety report at regular intervals and is, among other things, given monthly updates about the frequency of accidents. A Group crisis unit, in which the Board of Management is also involved, enables Daimler to respond quickly to various incidents such as serious accidents and pandemics.

Social Issues

As a global automotive company, we operate in an environment that is subject to a variety of societal, social and political influencing factors. In order to ensure we can continue operating effectively in the future, we need to make our company's interests understandable to governments and society, and also address the concerns of social groups. We therefore regularly share information with our stakeholders and communicate our interests in an open and fair dialogue with governments and political representatives.

Stakeholder dialogue

We seek to engage with all stakeholders in order to share views and experiences and discuss controversial issues in a constructive manner. Our goal here in every situation is to achieve a fruitful dialogue that benefits all parties.

We define stakeholders as individuals and organizations that have legal, financial, ethical or ecological expectations regarding Daimler. One of the criteria for identifying and weighting stakeholders is the extent to which a person or group is affected by our company's decisions or, conversely, can influence such decisions. Our primary stakeholders are our employees, customers, creditors and shareholders, as well as our suppliers. However, we also communicate regularly with civil groups such as NGOs, as well as with analysts, professional associations, trade unions, the media, scientists, politicians, municipalities and residents and neighbors in the communities where we operate.

Dialogue at the Group level

In order to maintain effective relationships with our stakeholders, we have defined areas of responsibility, communication channels and dialogue formats that are valid throughout the Daimler Group. Our Corporate Responsibility Management department is responsible for establishing an institutionalized and proactive dialogue with our stakeholders. This dialogue is then coordinated by our Corporate Sustainability Board and the Corporate Sustainability Office. The central format for our stakeholder dialogue is the Daimler Sustainability Dialogue, which has been held annually in Stuttgart since 2008 and brings various stakeholder groups together with representatives of our Board of Management and executive management. Each Sustainability Dialogue event focuses on sharing ideas in a variety of themed workshops. The Daimler representatives obtain feedback from the external participants and work together with the stakeholders to achieve agreed-upon targets throughout the course of the year. They then report at the event in the following year on the progress made in the interim. We held our tenth Daimler Sustainability Dialogue in Stuttgart during the year under review.

In order to discuss local challenges and promote the implementation of sustainability standards around the world, we organize Daimler Sustainability Dialogue events in other countries as well. Such dialogue events have been held in China, Japan, the United States and Argentina. During the year under review, external experts and stakeholders also attended the fifth Daimler Sustainability Dialogue in Beijing, where they spoke to Daimler representatives about environmental protection, economics, human resources, and integrity and legal affairs.

The **Advisory Board for Integrity and Corporate Responsibility** has been an important source of input for Daimler since 2012. The board's independent members from the fields of science and business, as well as from civic organizations, utilize an external point of view to offer critical and constructive support for the integrity and corporate responsibility process at Daimler. Board members have extensive experience with issues related to ethical conduct and transportation and environmental policy and contribute their different points of view to discussions. The board holds regular meetings with members of the Board of Management and other Daimler executives. During the year under review, the Advisory Board also held a joint meeting with the Board of Management and the Supervisory Board. Meetings of the Advisory Board during the reporting year focused on current topics and challenges, including ethical aspects in connection with autonomous driving, methods for measuring progress with regard to integrity, the current debate on emissions, Daimler's approach to respecting human rights, and the development of a management culture for the digital age.

We also utilize online and print media, discussions with experts, workshops, local and regional dialogue events and stakeholder surveys for our dialogue with stakeholders. For example, as part of the process for validating our new Sustainability Strategy 2030, we once again conducted an extensive online survey of our stakeholders in 2017. This survey basically confirmed the prioritization of focus topics carried out within the framework of our strategy process. Representatives from various specialist units at Daimler-participate in associations, committees and sustainability initiatives such as the UN Global Compact and econsense – Forum for Sustainable Development of German Business. We also stage interdisciplinary conferences as a way to conduct an active dialogue with stakeholders. One example is the second specialist conference on ethics and the legal situation with regard to autonomous driving, which was held in October 2017.

We regularly receive inquiries from stakeholders concerning various sustainability-related topics. These inquiries are addressed directly by specific specialist departments and units in a decentralized manner. This approach brings our stakeholders closer to our business operations and enables specialized knowledge to be directly incorporated into the dialogue. Reports on stakeholder inquiries are also presented in the meetings of our Sustainability Board and Sustainability Office. These reports are used to formulate key strategic policies for sustainability management. The Sustainability Board and the Sustainability Office also serve as coordination centers for dialogue with our stakeholders on interdisciplinary issues.

Dialogue on the local and regional levels

We also engage in a dialogue with the stakeholders at our locations. One example here is our planned Testing and Technology Center in Immendingen on the Danube. We sought to engage in a dialogue with the people in the region and address their concerns from the very beginning. Our Daimler Forum Immendingen also makes it possible for local residents to obtain information on the status of the project at any given time.

In connection with specific occasions and projects, we address questions, concerns, criticism and suggestions made by stakeholders at our locations and conduct an open-ended dialogue with them. We also stage proactive dialogue and information events on current topics. The results of all of our dialogue measures are incorporated into decision-making and decision-implementation processes at the company.

Political dialogue and representation of interests

As a company with global operations, we have to deal with a wide range of political changes and decisions that impact our business activities. In order to safeguard the future of the Daimler Group, it is therefore important that we represent the interests of our company in an open dialogue with governments, associations, organizations and various groups in society. Conversely, such a dialogue also allows us to hear their concerns and consider their interests.

Our principles for political dialogue and communicating our interests form the basis of responsible lobbying in compliance with all laws and regulations. This also includes the idea of maintaining neutrality when dealing with political parties and representatives of interest groups.

The aim of our discussions with political decision-makers is to achieve greater planning security and contribute our ideas to processes of social change. We focus here on issues such as vehicle safety, emission regulations, new mobility concepts

and electric mobility. Other important issues include trade policy, location-specific matters, education and human resources policy.

The management guideline on Lobbying and Political Donations governs, among other things, the use of lobbying instruments and other methods for making our interests known in the political realm. We represent the company's interests through dialogue with decision-makers, including elected officials or politicians who have been nominated for office, government officials, and representatives of political interest groups, trade organizations, business associations and government agencies. Participation in specialized government committees and product sales to ministries, government agencies and diplomatic missions are part of our business operations and therefore not considered a component of lobbying.

Our central coordinating body for political dialogue at the national and international levels is the External Affairs and Public Policy department, which falls under the responsibility of the Chairman of the Board of Management. This department operates a global network with offices in Berlin, Brussels, Beijing, Singapore, Stuttgart and Washington and also has corporate representations in other key markets. In order to ensure that political lobbying activities are coordinated, and also to avoid political target groups being addressed in an uncoordinated manner, employees in the External Affairs and Public Policy department must be registered.

The Group-wide Lobbyists Register ensures that political lobbying is carried out in accordance with applicable regulations and ethical standards. The register also helps us meet the registration requirements of public institutions.

As in previous years, Daimler AG made donations totaling €320,000 to political parties in 2017. Of this total, the CDU and SPD each received €100,000, and the FDP, CSU and Bündnis 90/the Green Party €40,000 each. All donations to political parties require a Board of Management resolution.

E.06

Sample stakeholder dialogue instruments

Information	Dialogue	Participation
<ul style="list-style-type: none"> - Annual Daimler Sustainability Report and regional sustainability reports (e.g. Daimler China Sustainability Report) - Blogs and social media - Intranet and internal communication - Press and public relations work - Plant tours, receptions, Mercedes-Benz Museum - Sustainability newsletter and magazines - Environmental statements of the plants 	<ul style="list-style-type: none"> - Annual Daimler Sustainability Dialogue (Germany/regions) - Group-wide internal integrity dialogue - Conferences on social issues; debates - Daimler Supplier Portal - Membership in sustainability initiatives and networks - Local dialogue with residents and communities - Dialogue concerning specific occasions and projects - Board of Management involvement in the Ethics Commission on Automated and Connected Driving (German Ministry of Transport and Digital Infrastructure) - New dialogue formats for future-oriented issues: think tanks, hackathons, idea competitions 	<ul style="list-style-type: none"> - Stakeholder survey and materiality analysis - Advisory Board for Integrity and Corporate Responsibility - Peer review within the framework of sustainability initiatives such as the UN Global Compact - Consultation of stakeholders in thematic working groups (environment, human rights etc.)

Compliance

Compliance is an indispensable part of the culture of integrity at Daimler. For us, compliance means acting in conformance with laws and regulations. Our objective here is to ensure that all Daimler employees worldwide are always able to carry out their work in a manner that is in conformance with applicable laws, regulations, voluntary commitments and our basic values, as set out in binding form in our Integrity Code. Our activities focus on compliance with all applicable anti-corruption regulations, the maintenance and promotion of fair competition, adherence to legal and regulatory stipulations related to product development, respect for and preservation of human rights, compliance with data protection laws, compliance with sanctions lists and the prevention of money laundering.

Our Compliance Management System

Our Compliance Management System (CMS) consists of basic principles and measures intended to ensure rule-based behavior throughout the company. The CMS is based on national and international standards and is applied on a global scale at all Daimler AG units and majority holdings. The CMS consists of seven elements that build on one another. [↗E.07](#)

Our compliance values and goals

Our Compliance Management System (CMS) is designed to help Daimler and its employees avoid inappropriate or illegal behavior. The measures needed for this are defined by Group Compliance and the Legal department in a process that also takes the company's business requirements into account.

Our compliance organization

Group Compliance and the Legal department play a major role in ensuring that applicable regulations are adhered to throughout the Group. Our compliance organization is structured in a divisional and regional manner, while our Legal department is organized regionally and along the value chain. These structures enable us to provide optimal support and advice to our divisions. A contact person is made available to each function, division and region. In addition, a global network of local contact persons make sure that our standards are met throughout the Group and also help local management at selected Daimler facilities and sales companies implement our compliance program.

Compliance risks

We systematically pursue the goal of minimizing compliance risks, and we analyze and assess the compliance risks of all our business units every year. These analyses are based on centrally compiled information on all business units and take into account specific additional details in line with the given risk assessment. The results of the analyses form the basis of our risk management.

Compliance program

Our compliance program comprises all the principles and measures designed to reduce compliance risks and prevent violations of regulations and laws. The individual measures, which are based on the knowledge gained through our systematic compliance analyses, focus on the following aspects:

The **whistleblower system BPO (Business Practices Office)** enables Daimler employees and external whistleblowers to report misconduct anywhere in the world. The BPO is available around the clock to receive information that is sent by e-mail or normal mail. Such information can also be provided to the BPO by calling an external toll-free hotline or by filling out a special form. Reports can be submitted anonymously if local laws permit this. In Germany, reports to the BPO can also be submitted via a neutral intermediary, who in this case is an independent external attorney. The information provided to the BPO enables us to learn about potential risks and specific violations and thus prevent damage to the company and its reputation. A globally valid corporate policy aims to ensure a fair and transparent approach that takes into account the principle of proportionality for the affected parties, while also giving protection to whistleblowers. In an effort to increase trust in our whistleblower system and make it even better known within the Group, we have established a continuous communication process that includes the periodic provision of information to employees about the type and number of reported violations, as well as the staging of informational and dialogue events at our locations.

A total of 95 new BPO cases were opened in 2017. During the year under review, 96 cases were closed, 61 of them "with merit," which means the initial suspicion was confirmed. Three of these cases were categorized as "corruption."

E.07

Daimler Compliance Management System (CMS)



With regard to those cases that are closed “with merit,” appropriate response measures are decided in line with the principles of proportionality and fairness. Such measures are only taken if the investigation of the case in question leaves no doubt of misconduct on the part of the accused individual(s). Measures taken in 2017 included the issuing of verbal and written warnings and final warnings, as well as separation agreements and extraordinary terminations. In some cases, there were claims for damages, while in others those guilty of violations stepped down voluntarily.

Compliance on the part of our business partners. We also require our business partners to adhere to clear compliance requirements because we regard our business partners’ integrity and behavior in conformity with regulations as an indispensable precondition for trusting cooperation. In the selection of our direct business partners, we therefore ensure that they comply with the law and observe ethical principles. In financial year 2017, we began reviewing our standardized process for examining all of our business partners (Business Partner Due Diligence Process) and implementing ongoing monitoring measures to increase process effectiveness and efficiency. Back in 2016, we published a “Compliance Awareness Module” that can be made available to our business partners on request and is designed to increase their awareness of the latest compliance requirements. We also reserve the right to terminate cooperation with business partners who fail to comply with our standards. For the expectations we place on our business partners, see also daimler.com/nh/ugb.

Communication and training

Our extensive training courses are based on our Integrity Code. The integrated training program is defined on the basis of an annual planning cycle that includes everything from a needs analysis to the implementation of the program and a monitoring process. Among other things, the program covers the topics of integrity, compliance (including corruption prevention and technical compliance), data protection and anti-trust law. Depending on the risk and the target group, we use classroom training or digital learning techniques such as web-based training courses.

Every employee with e-mail access who works at a Daimler-controlled company can participate in a web-based and target group-focused training program consisting of several modules – a basic module, a management module (for managers) and expert modules on antitrust law, data protection, procurement, sales, and non-cash rewards for employees etc. This program is being continuously expanded in line with the requirements of specific target groups.

With the exception of industrial employees, employees are automatically assigned mandatory modules relevant to their role and function. This ensures that each employee is given exactly the modules needed for his or her line of work. These training modules are assigned when an employee is hired, promoted, or transferred to a position that involves a heightened risk. This approach ensures that all personnel changes are properly addressed. In general, the program must be repeated every three years.

A new mandatory version of the training program was rolled out at the end of the year under review. The web-based train-

ing courses are supplemented by classroom training sessions that are conducted by central or local trainers. We provide our internal trainer network with modular training documents and materials for the methodical implementation of the courses. Such materials include a guideline for trainers and explanatory videos that can be used in a target group-specific manner in accordance with the risks associated with the functions of the participants. A total of approximately 96,300 employees from various hierarchy levels attended a classroom training course or participated in web-based training courses in 2017.

Our integrated training program also includes target group-specific qualification measures that help staff at Group Compliance and the Legal department address changes to regulations and the legal framework. In addition, all new employees at both departments attend a special practical seminar that offers a comprehensive introduction to this topic.

All of these training measures contribute to the permanent establishment of ethical and compliant behavior at the company and also help our employees deal with specific issues that can occur at work. The same is true of the new Daimler app for integrity, compliance and legal affairs. The app can be downloaded and used by all employees with an iOS company owned device. Among other things, the app enables mobile access to information on corruption prevention and antitrust law.

We have also further expanded our qualification and consulting program for individuals who perform supervisory and management functions. New members of executive bodies at companies in which Daimler is the majority shareholder are given a compact overview of key aspects of corporate governance via the Corporate Governance Navigator, which is a target group-focused program that supports them in their new role by providing information on their tasks and responsibilities, contact partners, and units that deal with central issues addressed by the Integrity and Legal Affairs division and adjacent units.

In addition to our internal training measures, our training program also includes special courses on integrity and compliance (including corruption prevention) that are offered to our business partners in line with their specific risks. The courses are offered as web-based training or classroom training sessions. Daimler informs its business partners about the courses and invites them to participate.

Monitoring and improvements

Every year, we review the effectiveness and efficiency of our Compliance Management System and adapt it to global developments, changed risks and new legal requirements. We also monitor important core processes during the year on the basis of key performance indicators (KPIs) that include process duration and quality. To determine these indicators, we check, among other things, whether formal requirements are met and all information is complete. In addition, we analyze the knowledge gained through independent internal and external assessments and participate in selected benchmark studies. These activities are used to define any required improvement measures, which are implemented by the responsible units and departments and then monitored on a regular basis. The relevant management bodies continuously receive reports on these monitoring activities.

Involvement of company management

Our divisional and regional compliance managers report to the Chief Compliance Officer. This guarantees the compliance managers' independence from the business divisions. The Chief Compliance Officer and Group General Counsel report directly to the Member of the Board of Management for Integrity and Legal Affairs and to the Audit Committee of the Supervisory Board. They also report four times each year to the Board of Management of Daimler AG on matters such as the status of the Compliance Management System and its further development, the status of the whistleblower system and, if necessary, on other topics. In addition, the Group General Counsel regularly reports to the Antitrust Steering Committee and the Group Risk Management Committee, to which the Chief Compliance Officer also reports.

Important non-financial reporting topics


Eliminating corruption, preventing cartel arrangements and ensuring compliance with technical regulations – we introduced our Compliance Management System in order to address exactly these issues, which are extremely important to us. Our Group-wide approach to respecting and upholding human rights is also based on the Daimler CMS.

Anti-corruption compliance

Daimler has committed itself to fighting corruption in its own business activities. Along with complying with all applicable laws, this also involves adhering to the rules of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997) and the United Nations Convention against Corruption (2003). As a founding member of the UN Global Compact and a part of its LEAD Group, Daimler also seeks to ensure that not only the company itself but also its business partners and customers act in accordance with the principles of the UN Global Compact. The most important goals here are to fight corruption around the world in order to enable fair competition, eliminate the damage corruption does to society and thus improve conditions for everyone.

Our anti-corruption compliance program is based on our comprehensive Compliance Management System. The program is globally valid and primarily consists of the following components: integrated risk assessment, risk-based measures for avoiding corruption in all business activities (e.g. reviews of business partners and transactions), and special care in contacts with authorities and public officials. Our risk-minimization measures focus in particular on sales companies in high-risk countries and business relationships with wholesalers and general agencies worldwide.

The responsibility for implementing and monitoring measures lies with each company's management, which cooperates closely with the specialist units within Integrity and Legal Affairs.

Daimler places the same strict requirements on all of its activities around the world. In addition, we continuously improve our methods and processes and use a variety of communication measures to make our employees aware of the importance of fighting corruption. Among other things, we released a film and set up a separate website to address this issue during the year under review. Further information on communication and training:  [page 230](#)

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 standards of the European antitrust authorities and courts. The objective of the Daimler standard is a uniform level of compliance and advice in all countries and thus compliance with all local and international antitrust laws.

By means of an advisory hotline set up by our Legal department, as well as guidelines and practical support, we help our employees around the world recognize situations that might be critical from an antitrust perspective, and also act in compliance with regulations in their daily work, especially when dealing with competitors, cooperating with dealers and general agencies around the world, and participating in business association committees. In addition to Daimler's Legal department and its specialist advisers, the Group's global units and their employees can turn to legal advisers in local at-risk units, who also ensure that our standards are consistently upheld. We also utilize a variety of communication measures to make our employees aware of the importance of competition and antitrust laws and issues.

The results of our annual compliance risk analysis serve as the basis for the formulation of measures that address antitrust risks. The responsibility for designing, implementing and monitoring measures lies with each company's management. Managers in turn cooperate closely with Integrity and Legal Affairs, which also provides information on how to implement the measures effectively. The at-risk units in particular must regularly systematically assess the adequacy and effectiveness of locally implemented antitrust compliance measures. In addition, our Legal and Corporate Audit departments conduct additional monitoring activities at our company's units, as well as random audits of at-risk units on the basis of a predefined audit plan in order to ensure that antitrust laws are complied with and internal processes are carried out properly. This helps us continuously improve the effectiveness of our Antitrust Compliance Program and adapt it to global developments and new legal requirements. The associated methods and processes are being constantly refined and improved.

In order to ensure an independent external assessment of our Antitrust Compliance Program, KPMG AG 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.

Technical compliance

As part of our efforts to continuously improve our products, technologies and organization, we repeatedly examine new development possibilities and also optimize our processes. This includes adjusting and improving our existing Compliance Management System – for example in terms of compliance with technical regulations.

In order to address the specific risks associated with the product development process, we combined all existing systems and additional measures and processes at Mercedes-Benz Cars into a technical Compliance Management System (tCMS) during the reporting year. This system includes fundamental principles and elements intended to ensure ethical conduct and work processes throughout the Group and compliance with applicable laws. Measures are currently under way to introduce the tCMS at Mercedes-Benz Vans, Daimler Trucks and Daimler Buses.

Our technical Compliance Management System helps create clarity with regard to compliance with technical regulations and also offers guidance with regard to these regulations, which can be very complicated. These questions are jointly examined and answered in an interdisciplinary process that takes into account legal and technical criteria. The tCMS addresses both the complexity of regulatory requirements and ongoing developments in the automotive industry.

Employees at Group Research and Development are supported here by a network of disseminators – direct contact partners for questions concerning technical compliance in their areas of responsibility. This network of disseminators is being expanded throughout the Group. We also employ various communication measures to raise awareness among selected target groups. Such measures include special dialogue events and guidelines on integrity, compliance and legal considerations in the product development process. For example, some 3,600 employees at Mercedes-Benz Cars Development had taken part in classroom training courses on technical compliance by the end of 2017.

Technical compliance is managed Group-wide by an internal team consisting of employees with expertise in various fields, such as development, legal affairs, integrity and compliance. The Board of Management members responsible for Integrity and Legal Affairs and Group Research and Development receive regular reports on the status of the technical Compliance Management System.

Human rights compliance

Daimler has been working on a company-specific approach to human rights since 2008. In 2011 we began developing a systematic due diligence approach for our company, initially on the basis of the Human Rights Compliance Assessments of the Danish Institute for Human Rights. Since 2015, we have been working with the Daimler Human Rights Respect System (HRRS), which we developed ourselves with the specific requirements of the company in mind.

The protection of human rights is also a key component of our Group-wide sustainability strategy. We are committed to providing to the greatest extent possible that these elementary rights are respected and upheld throughout our organization, our partners and by our suppliers as well. The UN Guiding Prin-

ciples on Business and Human Rights and Germany's National Action Plan on Business and Human Rights define the associated principles and due diligence obligations. It is our aim to fulfill these obligations and we are therefore gradually expanding our Human Rights Respect System (HRRS) as our Due Diligence Framework, including regular consultations with external stakeholders. As a proactive risk management system for human rights, the HRRS is designed with the aim to identify and avoid systemic risks and potential negative impacts of our business activities on human rights early on. The HRRS thus primarily protects third parties and is aimed at exerting its effect along at our supply chain as well. Along with relevant legislation, we also focus on multinational initiatives and frameworks, in particular the UN Guiding Principles on Business and Human Rights and the principles of the UN Global Compact. In line with the expectations regarding a human rights policy expressed in these documents, we have clearly defined what we expect from all of our employees and business partners. These expectations are formulated in our Integrity Code, our Supplier Sustainability Standards and our supplier agreements. The responsibility for human rights issues lies with the Integrity and Legal Affairs division.

The HRRS, which orientates itself on our Group-wide Compliance Management System (CMS), utilizes a risk-based approach in its focus on Daimler majority holdings (including production locations) and our supply chain. Also part of the HRRS is the consultation and exchange with rights holders, for example our employees and their representatives.

We continue to develop the HRRS and implement it step by step. In the last two years, for example, we conducted two HRRS pilot projects for Daimler majority-owned companies at our international locations and, where necessary, initiated improvements and also identified best practices for other locations. We were also able to further improve the system we use to classify all Daimler majority holdings in terms of human rights risks. We are working to firmly establish the HRRS for Daimler majority-owned companies by 2020 at all our locations thereby supplementing the already existing decentralized measures with a dedicated system.

Due diligence with the Human Rights Respect System

The HRRS is designed to identify and avoid systemic risks and possible negative effects of our business activities on human rights early on. It consists of four steps that are to be applied to Daimler majority-owned companies and the supply chain:

1. Identification of potential human rights risks (risk assessment)
2. Definition, implementation and management of preventive measures and countermeasures (program implementation)
3. Monitoring of the effectiveness of the measures, in particular at high-risk units and in supply chains that are at a high risk of human rights violations (monitoring)
4. Periodic internal reporting on relevant issues, compliance with external reporting requirements (reporting)

Identification of human rights risks at Daimler majority holdings

The risk assessment is a two-step process. The first step involves a categorization of the majority holdings on the basis of predefined criteria, such as the risk situation in specific countries and risks associated with specific business operations. In the second step, units that display a heightened human rights risk are subject to an on-site assessment. To this end, a modular approach was developed that makes it possible

to take into account fundamental human rights standards such as those defined in the Universal Declaration of Human Rights and the Core Labor Standards of the International Labor Organization (ILO).

In 2017 we used the experience gained with the pilot projects to make adjustments to our previous two-step risk assessment process. We also had external stakeholders verify the HRRS in general and our risk assessment methodology in particular. During this verification process, we were given valuable suggestions for further adapting and expanding the system. We are also currently developing an effective approach to program implementation, monitoring and reporting.

Identification of human rights risks in our supply chain

Since 2008 we have defined our expectations towards our suppliers regarding sustainability in our Supplier Sustainability Standards. Stipulations concerning working conditions and human rights are key components of these. In order to ensure that we can meet our human-rights due-diligence obligations even more systematically, we are gradually introducing the HRRS in our supply chain as well. To this end, clear risk classifications for Daimler supply chains were developed in line with specific product areas (e.g. production materials or services) in 2017. This also includes minerals commonly associated with conflicts. We are utilizing our risk-based approach in order to determine which supplier products and at which stages of our extensive supply chain we should take targeted and appropriate measures beyond our direct suppliers.

Involvement at the executive level

The member of the Board of Management responsible for Integrity and Legal Affairs is regularly informed on human rights activities at regular intervals. This is supplemented by regular reports submitted to the Board of Management and the Corporate Sustainability Board (CSB), as well as to the Procurement Council (PC) within the framework of our sustainability strategy.

Other compliance issues

It is very important to Daimler to minimize all legal and economic risks. Along with the issues described above, our Compliance Management System therefore also addresses other issues, such as compliance with our data protection policy and data protection legislation, the prevention of money laundering and compliance with sanctions lists.

Data protection compliance

The Corporate Data Protection department provides worldwide support to all Group companies and helps 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 Corporate Data Protection Policy creates Group-wide standards for handling the data of employees, customers and business partners, and also meets the requirements of current European data protection laws. Preparations are now under way for implementation of the new European data protection regulation that will go into effect in May 2018.

The Corporate Data Protection department is the point of contact for data protection complaints. It also carries out checks and audits, raises employees' awareness of data protection and advises the relevant specialist departments. Product-related advice focuses on data protection for connected vehicles and automated 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 and in activities carried out by Daimler Financial Services. It is meant to proving that legislation in various countries is complied with throughout the Group, and that internal regulations that go beyond such legislation are complied with as well. The Chief Compliance Officer serves as the anti-money laundering officer of Daimler AG as a distributor of goods. An Anti-Money Laundering Policy of competence supports the Chief Compliance Officer in the management and coordination of money laundering prevention measures. The Divisional Compliance Office Financial Services coordinates and supports the implementation of the Anti-Money Laundering Policy at Daimler Financial Services.

Sanctions compliance

We have introduced a risk-focused, system-based process at relevant specialist departments and Daimler AG-controlled holdings that ensures compliance with EU and US sanctions and internal regulations. The Center of Competence CSL (Checks against Sanctions Lists/Sanctions Compliance) provides implementation support to the relevant specialist departments and the Daimler AG-controlled holdings.

Independent Auditor's Report Concerning a Limited Assurance Engagement on the Non-Financial Group Reporting

To the Supervisory Board of Daimler AG,
Stuttgart

We have performed an independent limited assurance engagement on the separate combined Non-Financial Report of Daimler AG and the Group as well as the by reference qualified parts "Business model", "Legal risks" and "Non-Financial risks" according to §§ 315b and 315c in conjunction with 289b to 289e (further "Report") of Daimler AG, Stuttgart (further "Daimler") for the business year from January 1 to December 31, 2017.

Management's Responsibility

The legal representatives of Daimler are responsible for the preparation of the Report in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Non-Financial Report and the use of assumptions and estimates for individual sustainability disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Non-Financial Report in a way that is free of – intended or unintended – material misstatements.

Independence and quality assurance on the part of the auditing firm

We are independent from the company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the professional code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed of the Report within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report

for the period from January 1 2017 to December 31, 2017, has not been prepared, in all material respects in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB. We do not, however, issue a separate conclusion for each sustainability disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:


- Interviews with employees on group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for Daimler
- A risk assessment, including a media research, of relevant information about the sustainability performance of Daimler in the reporting period
- Assessment of the design and implementation of systems and processes for the collection, processing and monitoring of information on environmental, employee and social matters, human rights, corruption and bribery, including data consolidation
- Interviews with employees on group level who are responsible for the collection of the information to concepts, due diligence processes, results and risks, the conduction of internal controls and the information consolidation
- Evaluation of selected internal and external documents
- Analytical evaluation of data and trends of quantitative information which are reported by all sites on group level
- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey in Stuttgart and Mannheim (both Germany).
- Assessment of the overall presentation of the information

Conclusion

Based on the procedures performed and the evidence received to obtain assurance, nothing has come to our attention that causes us to believe that the Report of Daimler for the business year from January 1 to December 31, 2017 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

Limited liability

This report is issued for purposes of the Supervisory Board of Daimler AG, Stuttgart, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Daimler AG, Stuttgart, and professional liability is governed by the General Conditions of Assignment for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017  https://kpmg.de/bescheinigungen/lib/aab_english.pdf. By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Conditions of Assignment (including the limitation of our liability for negligence to EUR 4 Mio as stipulated in No. 9) and accepts the validity of the attached General Conditions of Assignment with respect to us.

Stuttgart, February 9, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Thümler
Auditor

Mokler
Auditor