

## Performance measurement system

### Value-based management

The performance measurement system used at Daimler is designed to ensure that our investors' interests and expectations are taken into account within the framework of a value-based management system. Value added shows the extent to which the Group and its divisions achieve or exceed the return requirements of the investors, thus creating additional value.

Value added is derived from financial value drivers which, due to their direct relationship to ongoing business operations, are utilized as financial performance indicators for the periodic assessment of the performance of the Group and its divisions.

In this sense, value added can be calculated as the difference between the measure of operating profit (EBIT or net operating profit) and the cost of capital of the average net assets.

#### ➤ B.02

The return on net assets (RONA) is calculated from the ratio of EBIT to net assets. Value is created for our shareholders when RONA exceeds the cost of capital. The required rate of return on net assets, and hence the cost of capital rate, is derived from the minimum rates of return that equity investors and lenders expect on their invested capital. During the year under review, the cost of capital rate of the Group remained unchanged at 8% after taxes. For the automotive divisions, the cost of capital rate remained at 12% before taxes; for Daimler Mobility, a cost of equity of 12% before taxes was applied (2019: 13%). ➤ B.03

The quantitative development of value added and the related financial performance measures is explained in the chapter

🔗 Profitability.

## B.02

### Calculation of value added

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

## Financial performance measures

### Profit measure

The measure of operating profit at the divisional level is EBIT (earnings before interest and income taxes). EBIT thus reflects the divisions' responsibility for profit and loss. EBIT that is calculated at the Group level takes into account centrally managed matters and eliminations. In order to provide a more transparent presentation of our ongoing business, we additionally calculate and report adjusted EBIT for both the Group and the divisions. The adjustments include individual items if they lead to material effects in a reporting year. These individual items can relate in particular to legal proceedings and related measures, restructuring measures and M&A transactions. Group EBIT minus the centrally managed income taxes equals net operating profit. ➤ B.18 in chapter 🔗 Profitability

### Return on sales

As one of the main factors influencing value added, return on sales is of particular importance for assessing the automotive divisions' profitability. Return on sales is the ratio of EBIT to revenue, whereby unit sales are the primary source of revenue. The measure of profitability for Daimler Mobility is not return on sales but return on equity (the ratio of EBIT to average equity on a quarterly basis). On the basis of adjusted EBIT, we report an adjusted return on sales (ROS) for the automotive divisions and an adjusted return on equity (ROE) for Daimler Mobility.

### Net assets

All assets, liabilities and provisions for which the automotive divisions are responsible in day-to-day operations are allocated to those divisions. Performance measurement at Daimler Mobility is implemented on an equity basis. Net assets at the Group level include the net operating assets of the automotive divisions and the equity of Daimler Mobility, as well as assets and liabilities from income taxes and other reconciliation items which cannot be allocated to the divisions. Average annual net assets are calculated on the basis of average quarterly net assets. 🔗 Profitability

**Cash flow**

A change in net assets – for example as a result of investments – generally leads to the application or release of liquid funds. Along with earnings, net assets thus also have a direct effect on the cash flow. Of outstanding importance for the financial strength of the Daimler Group is the free cash flow of the industrial business, which comprises the cash flows at the automotive divisions and the cash flows from interest, taxes and other reconciliation items that cannot be allocated to the divisions. The operating cash flow before interest and taxes (CFBIT) for the automotive divisions is derived from EBIT and the change in net assets. The cash conversion rate (CCR) is the ratio of CFBIT to EBIT over a period of time and is an important measure for cash-flow management. In order to provide a more transparent presentation of our ongoing business, we additionally calculate and report the adjusted free cash flow of the industrial business and the adjusted CFBIT of the automotive divisions.

The adjustments include individual items if they lead to material effects in a reporting period. These individual items can relate in particular to legal proceedings and related measures, restructuring measures and M&A transactions. On the basis of adjusted CFBIT and adjusted EBIT, we report an adjusted cash conversion rate (adjusted CCR) for the automotive divisions.

**Key performance indicators**

The key financial indicators for measuring the operating financial performance of the Daimler Group, in addition to EBIT and revenue, are the free cash flow of the industrial business, investment in property, plant and equipment, and expenditure for research and development. In addition, adjusted return on equity and new business are the key performance indicators for Daimler Mobility.

In addition to the financial indicators, we use various non-financial indicators to help us manage the Group. Of particular importance in this respect are the **unit sales** of our automotive divisions, which we use as the basis for our capacity and human resources planning. In 2021, we will also begin using the **CO<sub>2</sub> emissions of our total passenger new car fleet in Europe** (European Union, Norway and Iceland) as a key performance indicator in order to take the increased importance of the indicator – in particular with respect to sustainability – into account in the controlling of the Group.

Details of the development of non-financial performance indicators can be found in the chapters [Economic Conditions and Business Development](#) and [Non-Financial Declaration](#).

**B.03****Cost of capital**

	2020	2019
In percent		
Group, after taxes	8	8
Industrial businesses, before taxes	12	12
Daimler Mobility, before taxes	12	13

**Declaration on Corporate Governance**

The Declaration on Corporate Governance combined for the Company and the Group in accordance with Section 289f and Section 315d of the German Commercial Code can be found in the chapter [Declaration on Corporate Governance](#) and can also be viewed on the Internet at [daimler.com/corgov/en](https://www.daimler.com/corgov/en). Pursuant to Section 317 Subsection 2 Sentence 6 of the German Commercial Code (HGB), the purpose of the audit of the statements pursuant to Section 289f Subsections 2 and 5 and Section 315d of the HGB by the auditors is limited to determining whether such statements have actually been provided.